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SR305 Market Analysis and Feasibility Study

Prepared for:

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Introduction

The City of Poulsbo engaged Leland Consulting Group (LCG) to conduct a market analysis and feasibility study for the SR305 Corridor within the city, including an analysis of existing real estate conditions, demographics, employment trends, regulatory frameworks, and land use. The study also included a site visit, a number of stakeholder interviews with developers and other real estate professionals, an analysis of development feasibility for representative sites and building types in the corridor area, and an analysis of PSRC's framework for regional centers as it applies to the study area. This report synthesizes these tasks and presents the results, key findings, and recommendations of the study.

Executive Summary

Existing Conditions Analysis

- Poulsbo's population has **grown rapidly** over the past several decades and is forecast to keep growing at rates exceeding regional and statewide averages, showing a need to **plan for new housing and employment opportunities** in the city in the coming decades, including along the SR305 Corridor.
- When compared with regional averages, Poulsbo residents are **older**, more likely to be **white**, more likely to be **college-educated**, and live in **smaller households**, although household size has increased slightly in recent years.
- Incomes and educational attainment in Poulsbo are broadly **similar to county and statewide averages** and to the population of University Place, whereas other comparison communities with similar corridors including Shoreline and Bothell tend to have wealthier and more highly educated populations.
- Developers of mixed-use, residential, and commercial real estate typically consider a **range of demographic data**—including household ages, sizes, incomes, and education— when they are making development decisions. Therefore, demographics are one influence on development outcomes, and redevelopment will tend to take place more quickly in more affluent areas.
- Poulsbo's economy has fluctuated over the past two decades, with **robust job growth since 2013 at about 3.1 percent per year**, though job growth has decreased since the onset of the COVID-19 pandemic.
- **Retail, health care, and hospitality** are the top job sectors in the city, and are all sectors expected to see significant gains in employment in the region in coming decades.
- Poulsbo has **relatively few jobs in professional and business services**, another sector expected to see job growth in the next 20 years. This may signal challenges for new office development in the city.
- As of 2020, **more people were commuting into Poulsbo than commuting out**, particularly in health care and retail jobs, and about 750 residents both lived and worked in the city.
- Recent commuting trends based on cell phone location data show that **employees of the SR305 study area tend to commute in from other parts of Poulsbo and nearby locations in Kitsap County** whereas **Poulsbo residents tend to commute farther**, to Bainbridge, Silverdale, Tacoma, and the Seattle area.

- Much of the SR305 study area is **steeply sloped** on both sides of the corridor and the area contains **streams, wetlands, erodible and hydric soils, and geohazard areas**, all of which pose significant barriers to development by adding significantly to design, engineering, and construction costs.

Stakeholder Interview Summary and Recommendations

- Developers are interested in building in Poulsbo, but **the SR305 study area is a difficult place to develop** because of physical and regulatory barriers, including slope, streams, low quality soils, and zoning restrictions.
- Most of the demand in the area is for **housing**. The **retail** market is active in existing buildings but with less demand for new development, and **office** demand has dropped significantly because of the COVID-19 pandemic.
- Some property managers and business owners have experienced increased concerns about **public safety**.
- Issues with soil, slope, and streams are difficult for the city to address, but the city could **consider some regulatory changes to encourage development in the study area**:
    - Currently, density in the RM/RH zones is regulated by units per acre and density in the C3 zone is regulated by lot coverage standards and parking regulations. Consider **regulating density by FAR** instead to allow flexibility for developers to build densities that are feasible while maintaining desired building size.
    - Consider **reducing minimum front yard setback** to 0' to enable development that fronts directly onto the sidewalk, as in historic parts of downtown Poulsbo.
    - Consider **allowing/encouraging shared parking ratios** between housing and commercial space in the same building.
    - Identify where future transit nodes will be and consider **allowing lower parking levels near those nodes**.
    - Explore a variety of options around **ground floor commercial space**:
        - Consider matching the C-1 zone outside of the shopfront overlay, which allows residential units that are "**constructed to commercial building and fire code standards**." Commercial code typically requires higher ceilings to allow HVAC, sprinklering, and different trash collection. There is a benefit of this approach to businesses since the tenant improvements tend to be much less compared to raw commercial space.
        - Consider allowing **well designed ground floor housing**, even if not constructed to commercial standards.
        - Consider allowing **live-work units**. Quincy Square and Marina Square in Bremerton both feature ground floor "live work" units.

Real Estate Analysis

- Nationwide, developers are most interested in building **multifamily housing** and **industrial/distribution** properties, with stubbornly low interest in retail and office development since the onset of the COVID-19 pandemic.
- In the SR305 study area, **17 commercial properties have sold in the past five years**, with an average land price of around $50 per square foot for retail and $135 per square foot for office. Prices per square foot of building area average $194 for retail and $337 for office. The relatively high office prices may be due to the sale of a larger health care building in the area.
- When compared with nearby comparison areas, the SR305 corridor area has seen **considerably less development** than corridor areas in Silverdale, University Places, Shoreline, and Bothell, particularly in multifamily development.
- One regional comparison area of interest is Bridgeport Way in **University Place**, which has a similar demographic and income mix to Poulsbo. This corridor and the Town Center area have seen a significant amount of redevelopment over the past two decades because of proactive planning, rezoning, and city investment in infrastructure, land, and tax exemptions.
- **Nine opportunity sites** and **two opportunity areas** for development were identified in the SR305 study area. These were identified using physical conditions, relative land and building value, size, and location. Further considerations of these sites can be found below under "Development Feasibility."

PSRC Centers Framework Analysis

- The current Activity Unit density in the SR305 corridor is **well below** the required 18 Activity Units per acre, and given the most likely scenario where the study area develops at the density of Bridgeport Way in University Place, the study area still may not achieve the required minimum within twenty years.
- The SR305 Corridor can probably provide the required **capacity** for future development (45 AU/acre), but actually realizing the required amount of development will be challenging.
- LCG does **not see an obvious correlation** between RGC designation and development outcomes or transportation funding based on regional trends.
- Some **geographic changes** may make RGC densities more feasible. For example, a narrower area around the corridor which excludes the hillsides could be proposed, or Downtown Poulsbo could be added to the proposed area to increase Activity Unit density.

Development Feasibility Analysis

- LCG's development feasibility analysis focuses on the financial feasibility of **six different building "prototypes,"** including garden apartments, mixed-use buildings, retail renovations, retail new construction, and office buildings. LCG considers the feasibility of each building under **eight different scenarios,** which vary in terms of whether the site is vacant or has a building; is flat or sloped; requires existing parking ratios or lower parking ratios; can take advantage of a eight (8) year multifamily tax exemption (MFTE) or not; and if there is a "rent premium" that reflects a future condition in which the study area is more walkable and mixed-use. While this analysis has many attributes, there are also many—such as the conditions of soils of various

sites and the willingness of property owners to sell—that cannot be known for every property in the study area.

- **Retail renovations**, in which developers own or purchase an existing building and make a series of tenant and site improvements to accommodate a new tenant, are feasible in many cases. LCG believes that this is likely to be the most common type of development in the study area over the coming decades.
- **Garden Apartments** are feasible in some cases, especially on flat, vacant land, and on larger sites. However, Garden Apartments are not permitted in the C3 zone. They will be difficult to build economically on sloped sites, but reducing parking requirements, applying the eight (8) year MFTE, and a rent premium all have the potential to make some these projects feasible on sloped sites. It will be very difficult for garden apartment developers to purchase and redevelop existing commercial buildings in the area.
- Speculative **office development** is infeasible due to high vacancies, modest rents, high cap rates, and concern from developers and lenders about the strength of office demand in the future.
- **Mixed-Use 2** projects, which are similar to mixed use projects built region-wide, are more feasible than **Mixed-Use 1** projects, which reflect what is currently permitted under the City's C3 zoning, for the following reasons:
    - The **amount of ground floor commercial space** is comparable to other parts of the region. Mixed-Use 2 buildings have about 5,000 square feet of commercial space. This enables ground floor commercial space to be shallower and creates less risk for large vacancies. The C3 ground floor commercial space requirements make other elements such as lobbies, elevators, gyms, common rooms, and parking more difficult to accommodate.
    - Large amounts of commercial space require more (structured) parking.
    - The **higher densities of the Mixed-Use 2 projects** enable developers to pay more for land and site development, and overcome the challenges associated with slopes, existing buildings, etc. Mixed-Use 2 projects are assumed to be six stories while Mixed-Use 1 projects are limited to four stories.
    - **Lenders and others are more familiar with Mixed Use 2 projects** and will assign higher values (lower cap rates) to these projects, in part because lenders view commercial development projects as riskier than multifamily projects.
- **Mixed-Use 2 projects become feasible on vacant land when parking ratios are lower, tax exemption is enabled, and rents are higher** (Scenario 3). Under the right conditions (Scenario 8), Mixed-Use 2 projects are very close to feasibility and could possibly lead to redevelopment of existing commercial buildings. However, the analysis indicates that **few Mixed-Use 1 projects will be feasible,** particularly on existing commercial land, which comprises a majority of the study area.

Existing Conditions Analysis

This section presents background information on the study area's demographics, employment, land use, and physical condition, including comparisons with the rest of Poulsbo, Kitsap County, and the State of Washington. This background information is the basis for analysis of future demand for housing and employment as well as physical barriers to development and the study area's relationship to regional trends.

Study Area

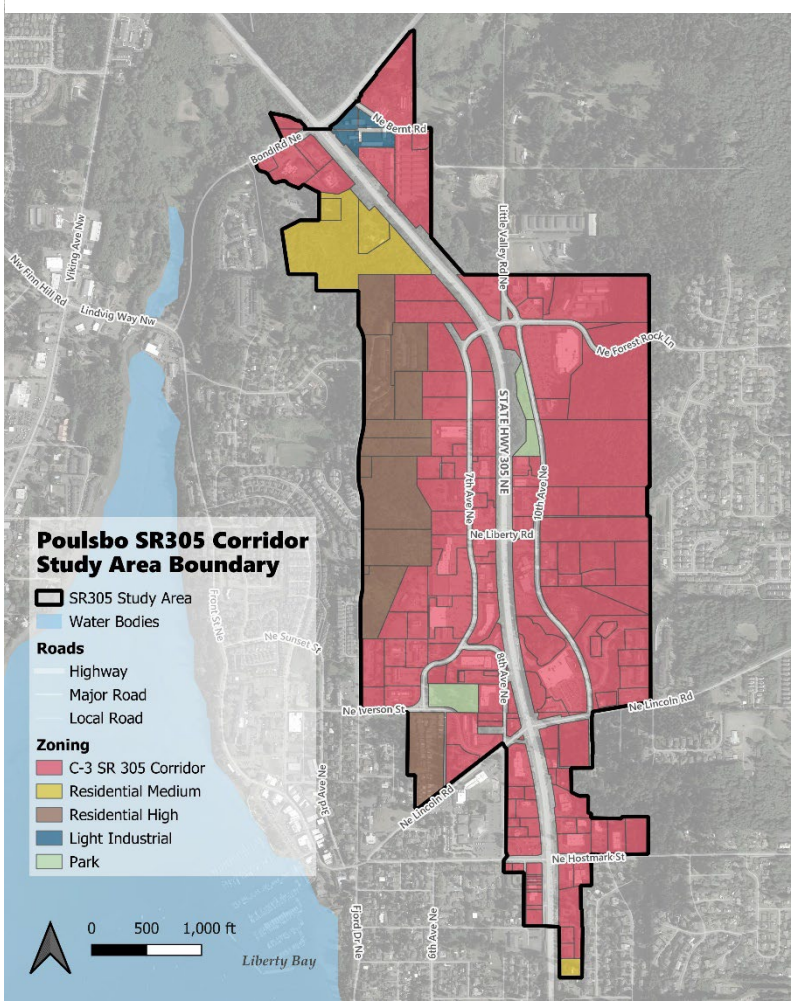
Figure 1 shows the study area boundaries and current zoning. The study area is approximately 340 acres and is primarily zoned *C-3: SR 305 Corridor*, with some areas of *Residential Medium*, *Residential High*, and *Light Industrial* as well as a small amount of open space. The C-3 zone is intended to provide conditions for businesses providing consumer goods and services to the local population, such as financial, health services, and office. Most retail, business, and food/drink uses are allowed in this zone as well as some light industrial uses and public uses. Mixed-use commercial/residential buildings are also allowed, as long as 50% of the street level ground floor gross square footage is occupied by uses set forth in the Commercial Zoning Districts Use Table. The study area's parcel acreage by zone is shown below in Figure 2.

Figure 2. SR305 Study Area Acreage by Zone

Zone	Parcel Acreage	Share
C-3 SR 305 Corridor	220.7	65%
Residential High	43.2	13%
Residential Medium	17.7	5%
Park	4.5	1%
Light Industrial	2.9	1%
(Right of Way)	50.9	15%
Total	**340.0**	**100%**

Source: City of Poulsbo GIS Data

Figure 1. SR305 Study Area with Zoning



Source: City of Poulsbo, US Census TIGER/Line Shapefiles, ESRI, LCG

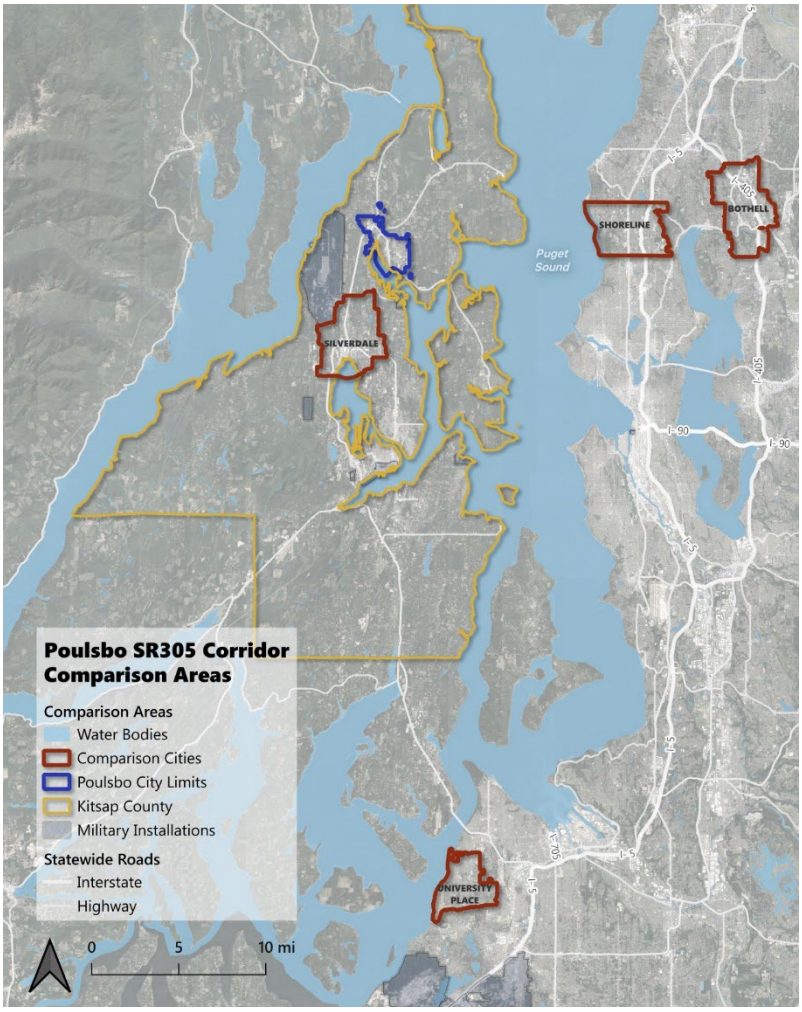
Demographics and Households

Comparison Cities

This report compares Poulsbo to several comparison areas: Silverdale, University Place, Shoreline, Bothell, Kitsap County, the State of Washington, and sometimes other areas. These areas are shown in Figure 3 to the right. Silverdale and University Place both contain Regional Growth Centers (RGCs)—areas that are designated by the region and local jurisdictions as areas for significant residential and employment/commercial growth. A PSRC center or other special designation has been discussed for the SR305 study area in the past and considerations around these designations can be found later in this report.

University Place, Shoreline, and Bothell have all undertaken ambitious corridor redesign and planning efforts of the kind that are possible along the SR305 corridor. All three areas saw the redesign of their corridors as a means to transition nearby land uses to be more walkable, higher-density, and mixed-use. Therefore, it is possible to use these other corridor planning efforts to understand how citywide demographics and other factors may influence redevelopment. Development outcomes in each corridor area are covered later. Demographics in Kitsap County and the State of Washington naturally provide a point of reference for the city, though their populations are much larger.

Figure 3. Comparison Cities

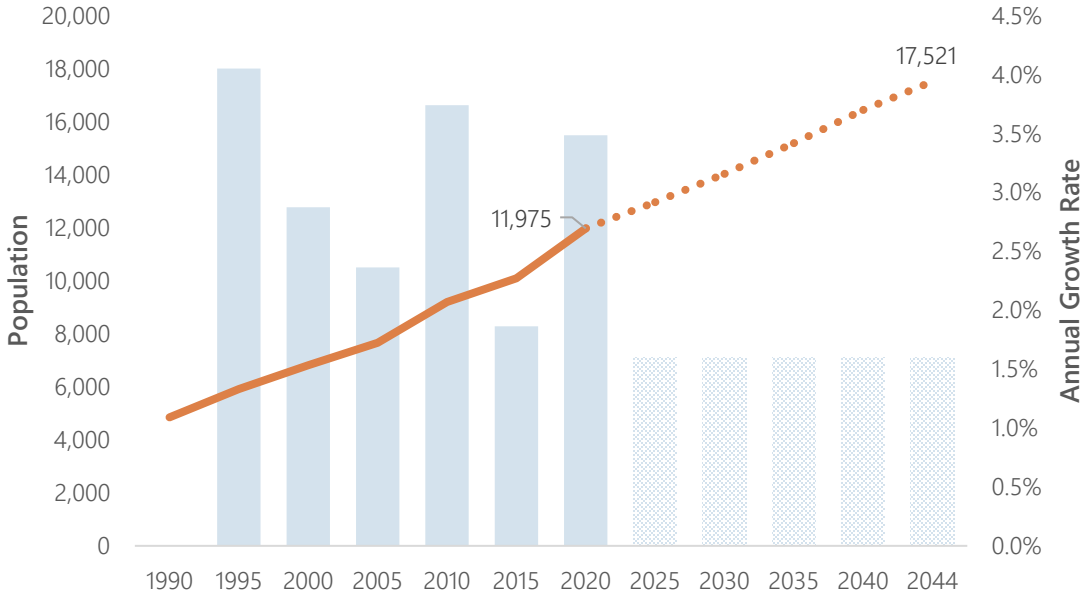


Source: U.S. Census TIGER/Line Shapefiles, Kitsap County, LCG

Population

Poulsbo's population and population growth rate since 1990 are shown below in Figure 4. The city's population has increased steadily since 1990, with a particularly large growth rate of four percent annually from 1990-1995. Overall, the city's population has tripled since 1990 and is forecast to keep growing at approximately 1.5 percent per year through 2044, according to the latest state and county forecasts. This would result in a 2044 total population of 17,521, an increase of 5,546 expected new residents between 2020 and 2044.

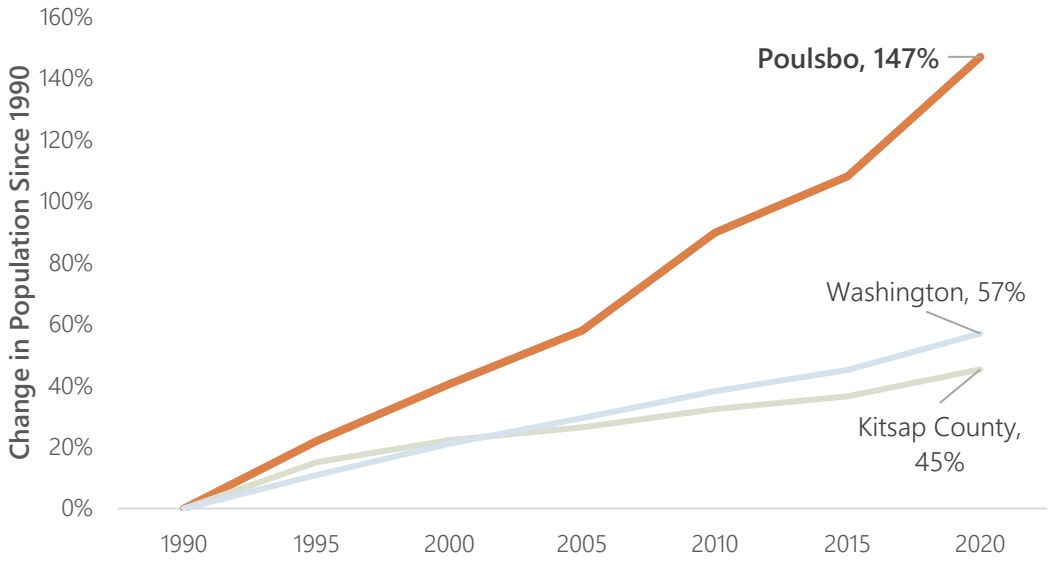
Figure 4. Poulsbo Population and Growth Rate, 1990-2044



Source: Washington Office of Financial Management, Puget Sound Regional Council, Kitsap County

Poulsbo has grown much more rapidly than the county and state, as shown below in Figure 5. The city's faster pace of growth suggests its popularity as a place to live and specifically a desirable location within Kitsap County, which has grown far less rapidly over recent decades. If the trends shown in this section continue, Poulsbo will likely see continued demand for housing and employment, as well as corresponding services such as new infrastructure, schools, and health care, and without corresponding housing production will likely see increases in housing costs for residents in the coming decades.

Figure 5. Poulsbo, Kitsap County, and Washington Population Growth, 1990-2020

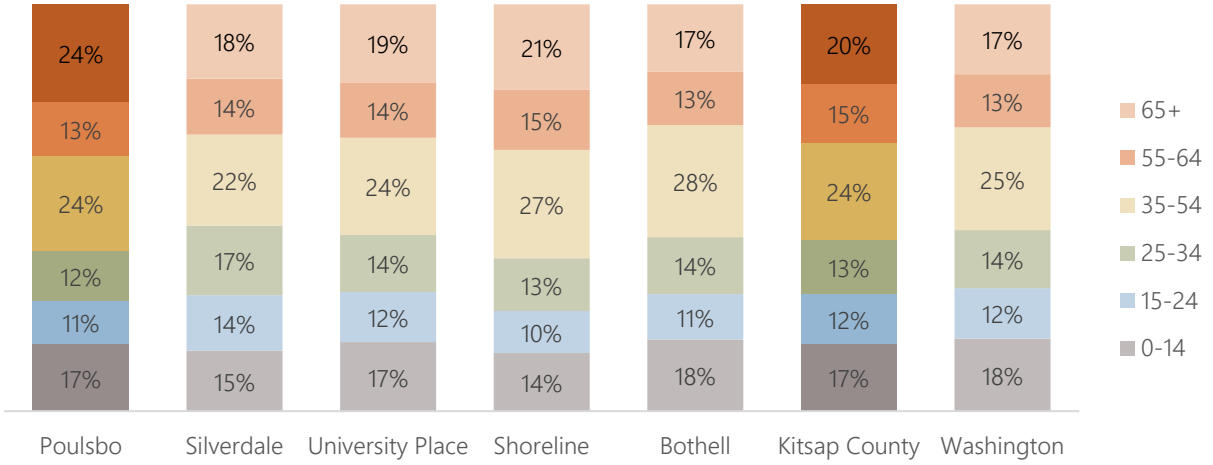


Source: Washington Office of Financial Management

Age and Race

Figure 6 below shows Poulsbo residents' age with regional comparisons. Overall, Poulsbo residents are older than regional and statewide averages as well as many of the comparison geographies. This reflects the city's relative popularity with retirees, which can have unique impacts on the workforce and housing needs in the city.

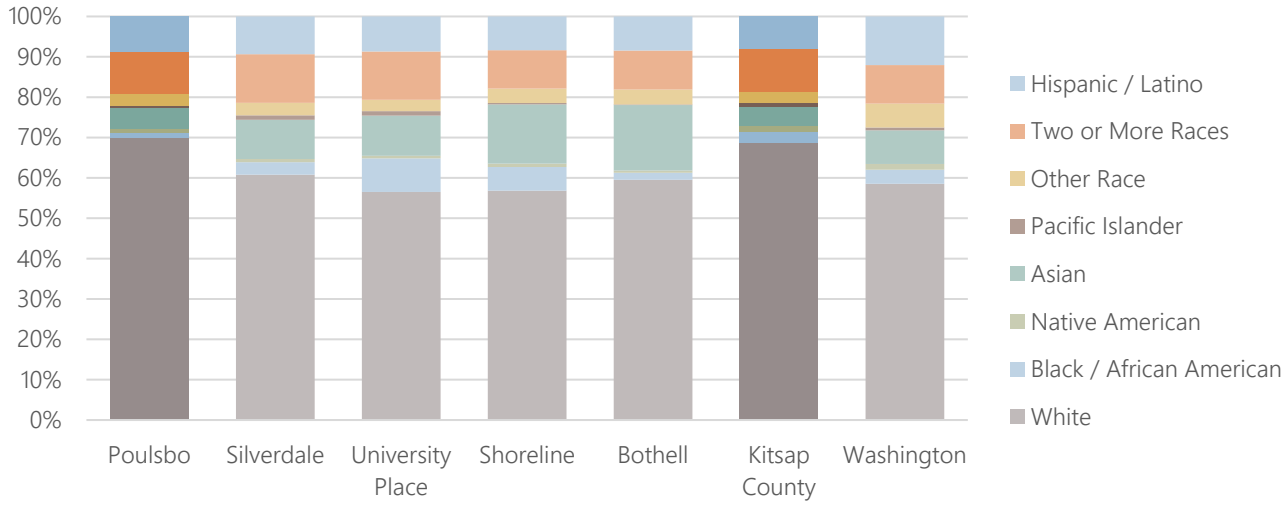
Figure 6. Age of Poulsbo Residents with Comparison Geographies, 2022



Source: ESRI[1]

Figure 7 below shows the race and ethnicity of Poulsbo's residents. Overall, Poulsbo is similar in racial and ethnic diversity to Kitsap County overall, though less diverse than the state and than many of the comparison areas more proximate to Seattle and Tacoma.

Figure 7. Race and Ethnicity of Poulsbo Residents with Comparison Geographies, 2022



Source: ESRI

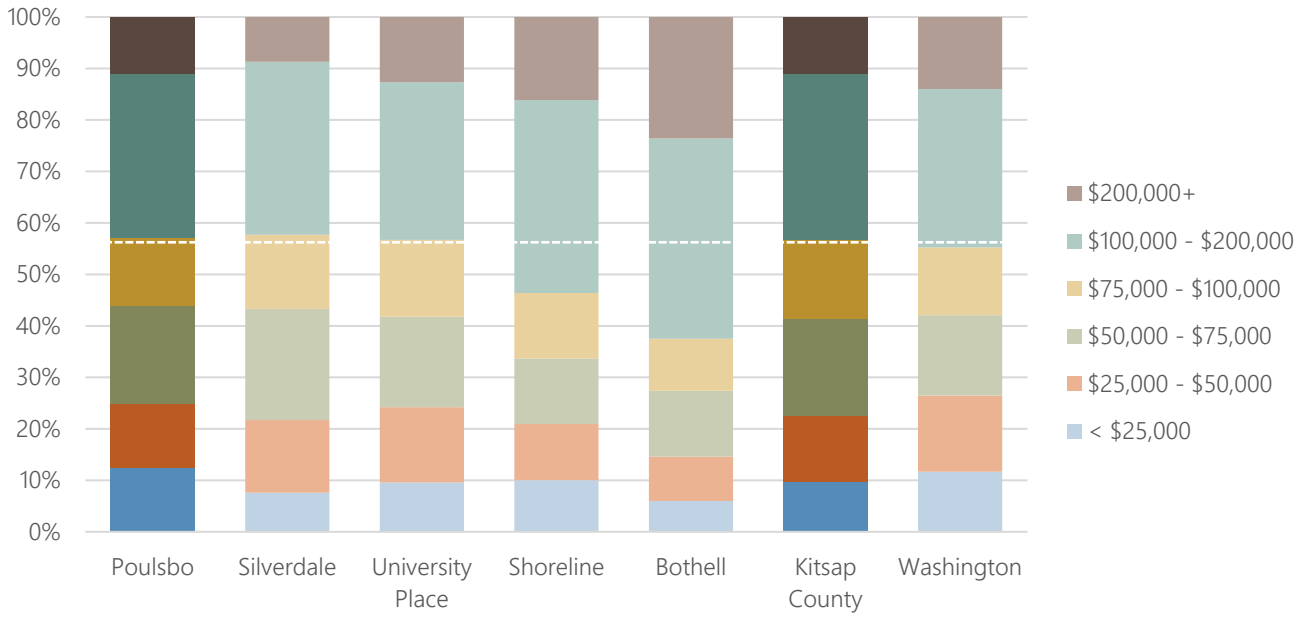
[1] Environmental Systems Research Institute, a leading provider of Geographic Information Systems (GIS) software and data. ESRI's demographic data is based on the Decennial U.S. Census and yearly estimates are supplemented with additional data from the American Community Survey, U.S. Post Office, and numerous other data sources.

Poulsbo's households are slightly smaller than regional averages, at an estimated 2.39 people per household in 2022, compared with 2.52 in Kitsap County and 2.54 statewide. Comparison communities all have household sizes around 2.48. The smaller household sizes in Poulsbo reflect its older population, although the household sizes in the city have increased somewhat since 2010, when there was an average of 2.34 people per household. This may suggest increasing numbers of family households or multigenerational households. Increasing household size can also indicate issues with housing affordability as residents who would otherwise choose to live alone need to live with others to decrease their housing costs.

Income and Educational Attainment

Poulsbo's household incomes are shown below in Figure 8. Poulsbo has a typical income distribution when compared to regional and statewide averages. Household incomes in Poulsbo and University Place are very similar, indicating that this comparison area may be the most relevant. Household incomes in Silverdale and Kitsap County are also similar to Poulsbo. Some comparison communities, particularly Bothell and Shoreline, are considerably wealthier.

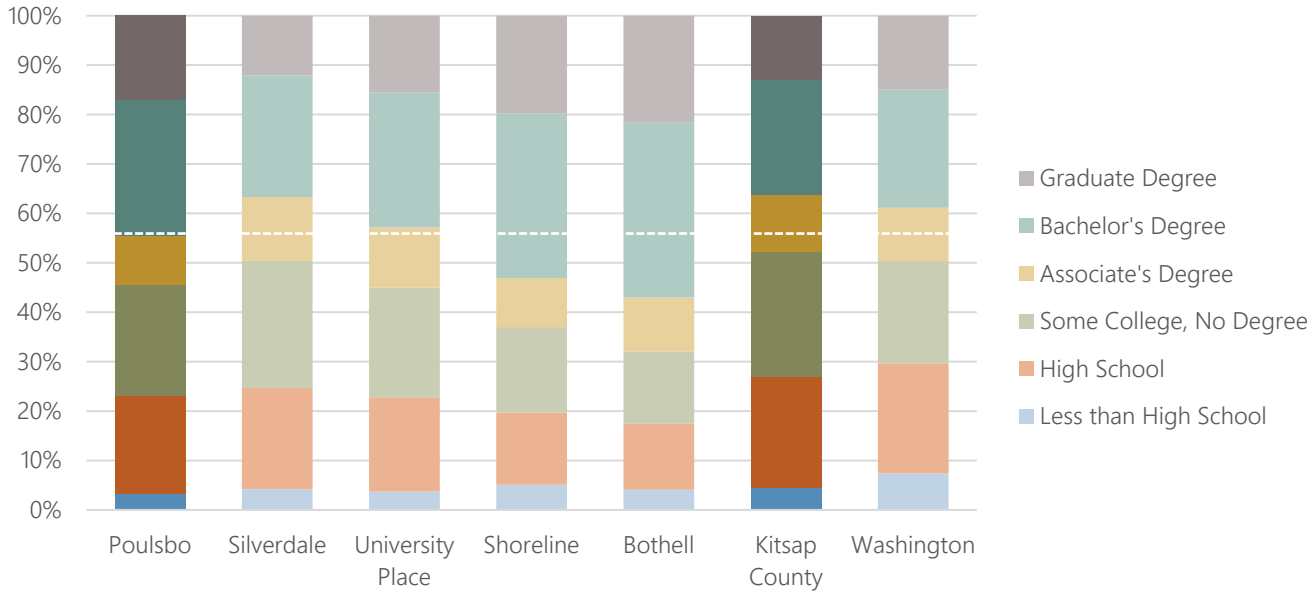
Figure 8. Household Income in Poulsbo with Comparison Geographies, 2022



Source: ESRI

The educational attainment of Poulsbo residents is shown below in Figure 9. Residents of Poulsbo have higher levels of educational attainment than Silverdale, Kitsap County, and the State, and lower levels compared to Shoreline and Bothell. Levels of education, like incomes shown above, are similar to University Place. In the real estate and development market, higher education levels are correlated with a higher propensity to select "urban" housing types, such as townhomes, condominiums, and apartments.

Figure 9. Educational Attainment in Poulsbo with Comparison Geographies



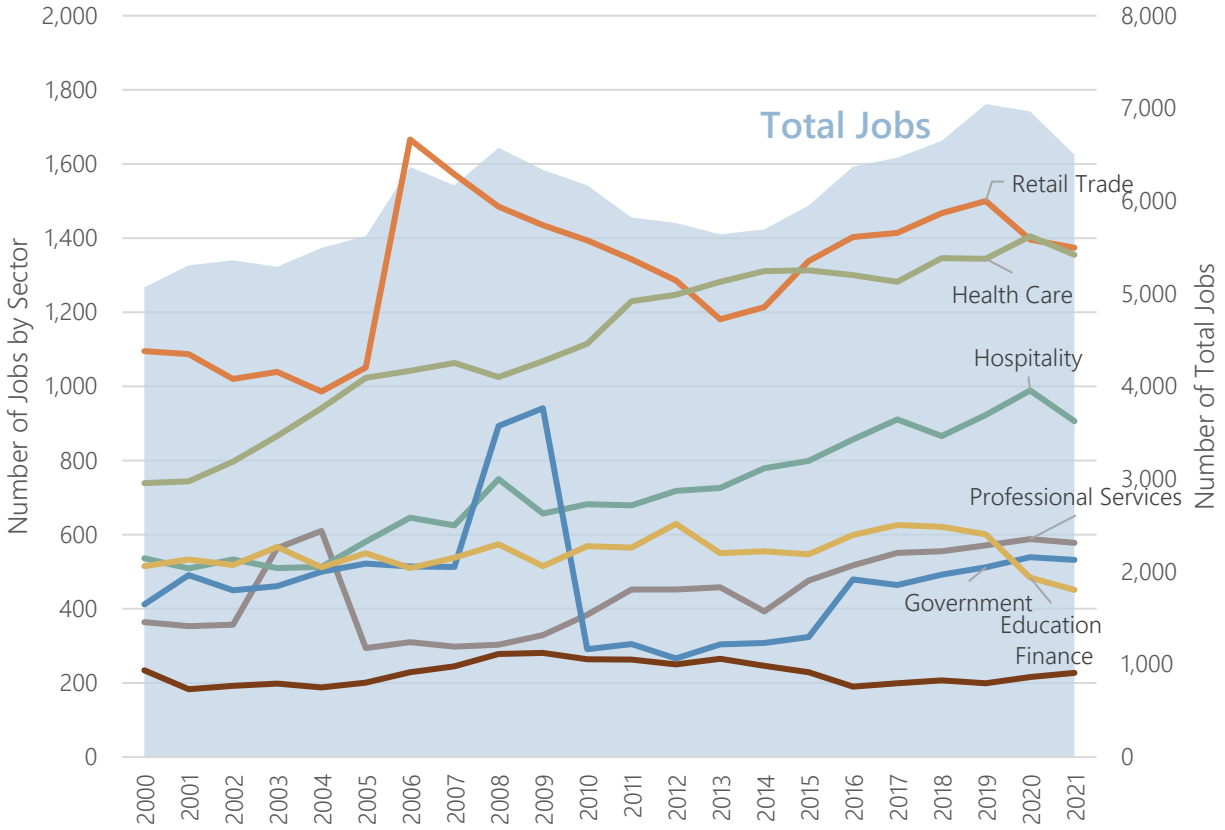
Source: ESRI

Employment

Past and Future Trends

Poulsbo's economy has fluctuated over the past two decades with steady job growth from 2000-2008 followed by a dip after the 2008 recession, particularly in retail jobs. However, since 2013, the number of jobs grew steadily until the onset of the COVID-19 pandemic, as shown below in Figure 10. Since 2020, job numbers have declined, particularly in retail and hospitality, which saw significant job losses nationally due to the pandemic. Over the 21-year period shown below, Poulsbo gained jobs at an average rate of 1.2 percent per year, but during the 2013-2020 period, the rate was higher, an average of 3.1 percent per year. Over the past decade, the city has seen the largest job gains in retail, health care, and hospitality, which are also the top three sectors by number of jobs. Health care is a consistently growing industry nationally, and although retail jobs have decreased since the onset of the COVID-19 pandemic, they still represent an important part of the city's economy, particularly along the SR305 corridor.

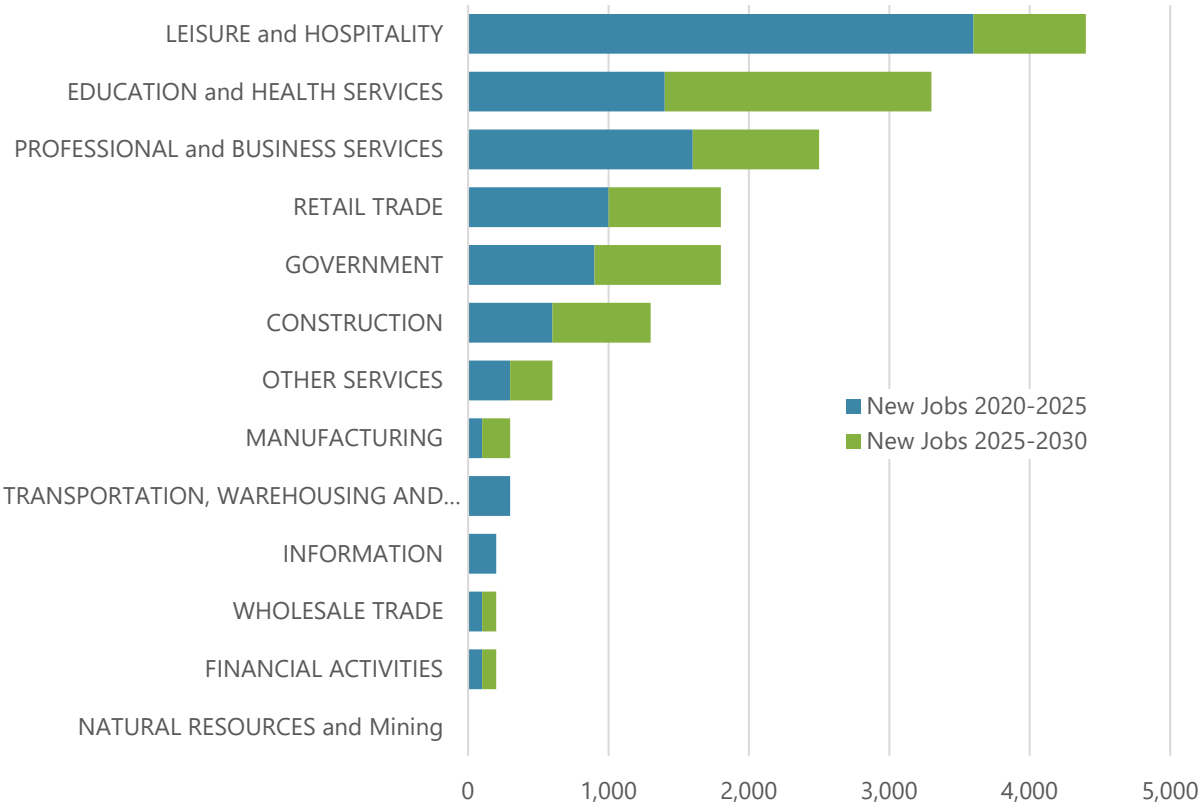
Figure 10. Top Job Sectors in Poulsbo, 2000-2021



Source: Puget Sound Regional (PSRC) Covered Employment Data

According to the latest Kitsap County employment targets, Poulsbo is expected to gain 4,000 new jobs by 2044, for a total of 11,638 jobs. The Washington Employment Security Department's forecast for new jobs over the next decade by center in the Olympic Consortium (Kitsap, Jefferson, and Clallam Counties) is shown below in Figure 11. Comparing this regional jobs forecast with recent trends in Poulsbo can help indicate the types of development and employment that the city may expect to see in coming decades. Some of Poulsbo's top job sectors, including education and hospitality, are forecast to grow significantly across the region over the next 20 years, and this is reflected in Poulsbo's robust jobs allocation. However, there are few jobs in Poulsbo in the professional and business services sector, which is the third-fastest growing industry in the region and a key driver of demand for office space. The current depressed market for office space, discussed further below under "Real Estate Analysis," combined with the low level of professional service employment in Poulsbo present significant headwinds for new office development in the city.

Figure 11. New Jobs Forecast 2020-2030, Olympic Consortium

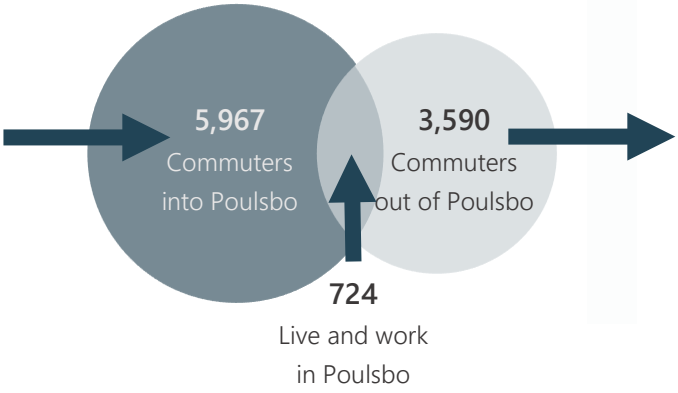


Source: Washington Employment Security Department

Commuting

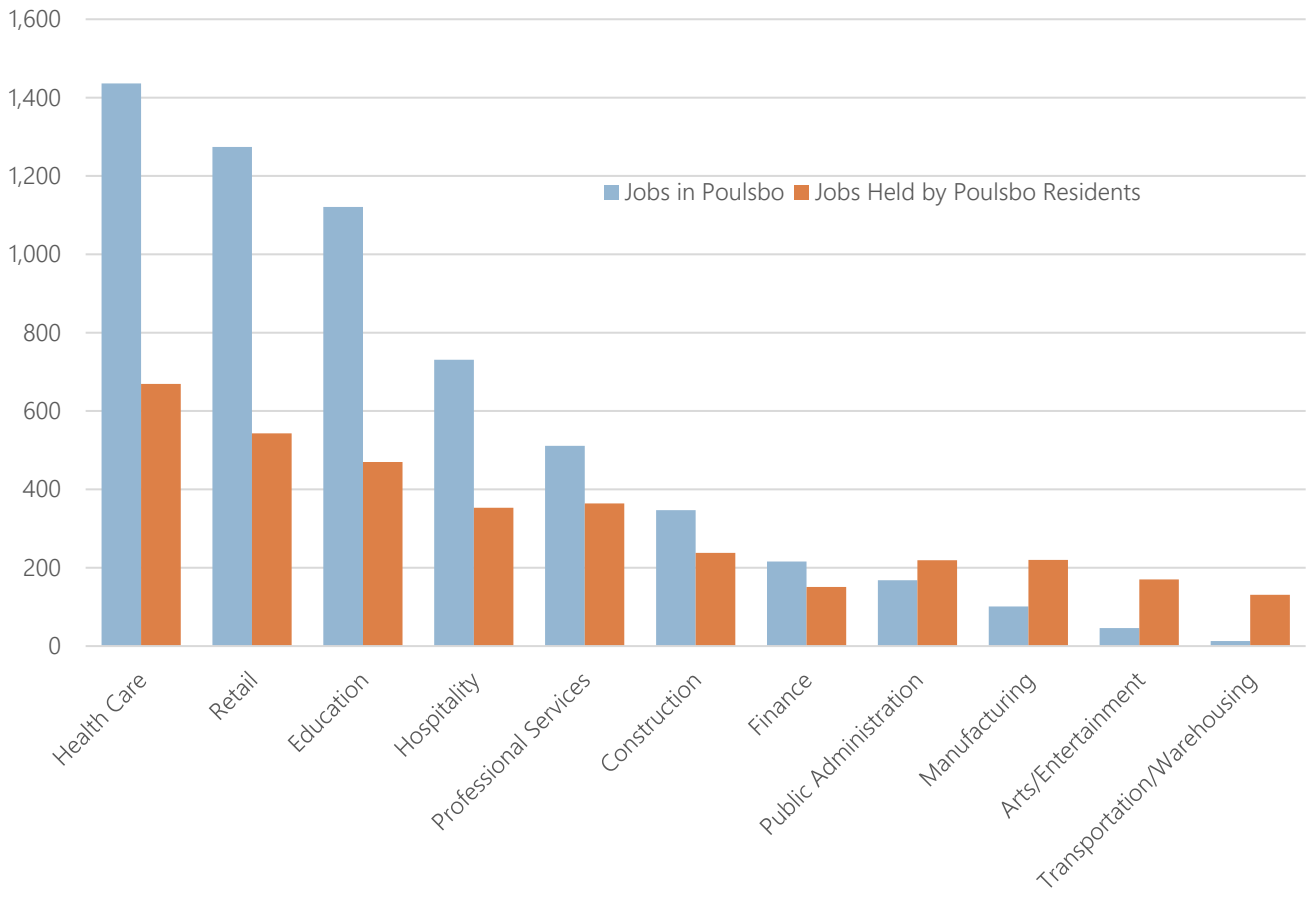
Many employees of health care, retail, education, and hospitality jobs are not Poulsbo residents, while some traditionally "blue collar" jobs in the city such as manufacturing and transportation are worked in greater shares by Poulsbo residents than non-residents, as shown below in Figure 13. This may reflect the larger number of retirees in the city and other demographic factors, but is also a function of the fact that Poulsbo experiences a net inflow of commuters, as shown in Figure 12, which shows the most recent Census data on commuting trends for the city from 2020. Although commuting patterns have changed nationwide since the COVID-19 pandemic, this data represents the most recent available Census data on commuting in the city.

Figure 12. Commuting Patterns in Poulsbo, 2020



Source: US Census Longitudinal Employer Household Dynamics (LEHD) via Census OnTheMap

Figure 13. Jobs in Poulsbo and Jobs Held by Poulsbo Residents, 2020

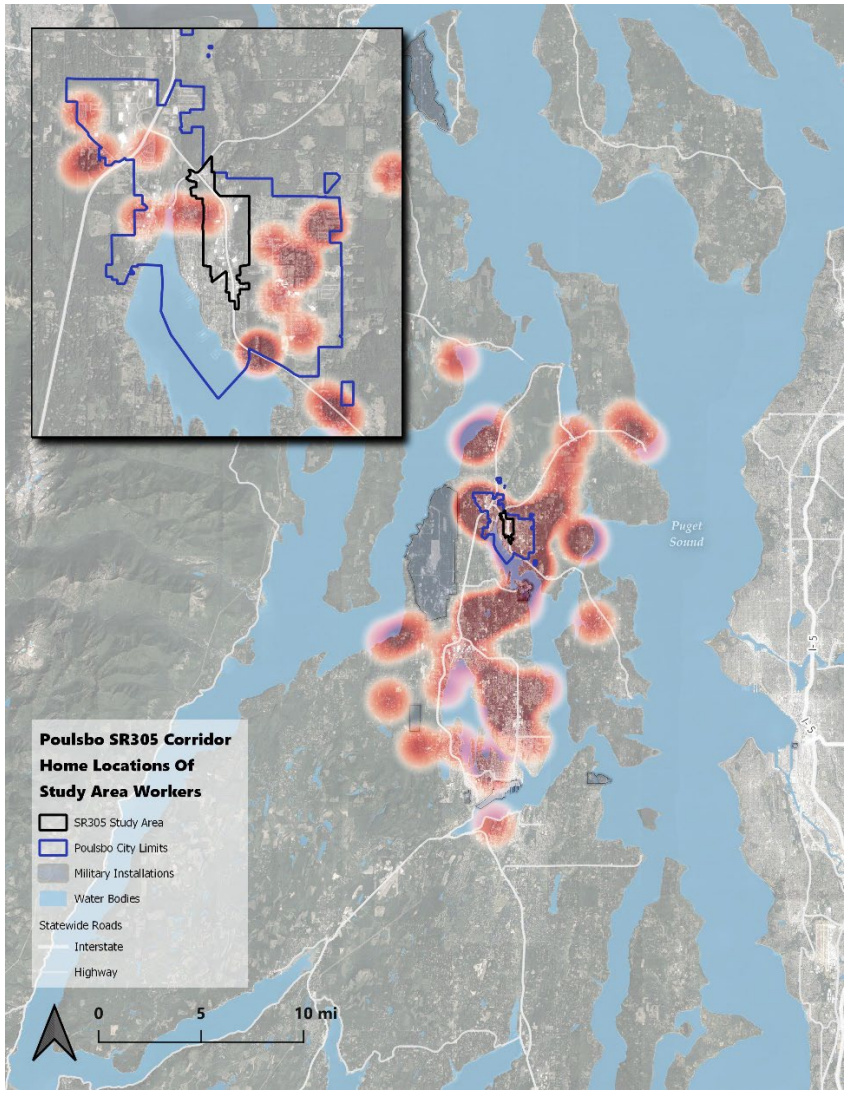


Source: US Census Longitudinal Employer Household Dynamics (LEHD) via Census OnTheMap

Another source of commuting data comes from aggregated cell phone location data provided by placer.ai. This data can show recent trends and overall patterns of the movement of residents, visitors, and customers of an area but is anonymized within the Census block. Additionally, since the data is based on physical locations of phones, remote work and self-employment at home are not accurately captured. Nonetheless, the data can highlight the movement of in-person employees. Based on typical working hours and patterns, estimated home locations of SR305 study area employees over the past 6 months (November 2022-April 2023) are shown on the heatmap in Figure 14. Most employees who work in the study area live nearby, either in Poulsbo itself as shown in the inset, or elsewhere in Kitsap County.

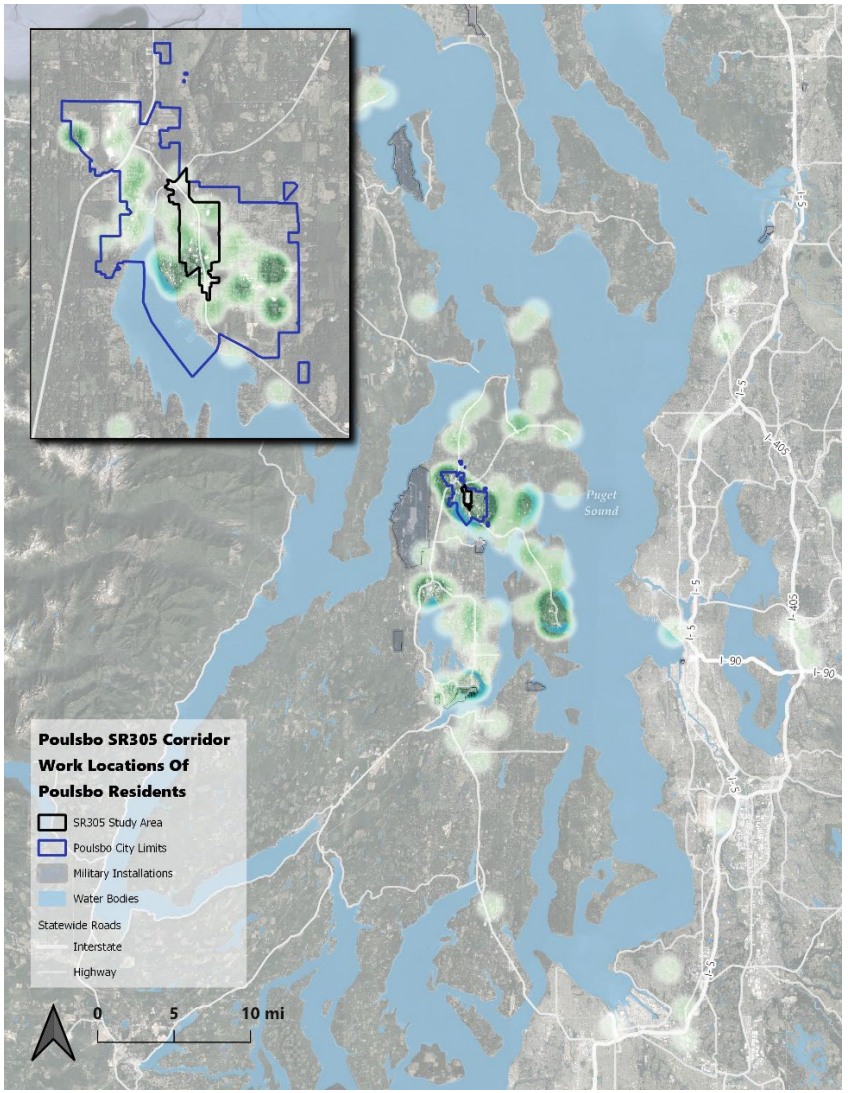
Figure 15 shows the approximate work locations of Poulsbo residents. This data is shown for citywide residents since there are very few housing units within the study area itself. When compared with the home locations of study area employees, Poulsbo residents are commuting farther for work, notably to Bainbridge Island, Silverdale, and Gig Harbor, but also farther to Tacoma, Seattle, and even Bellevue and other eastern suburbs of Seattle.

Figure 14. Home Locations of Study Area Workers, 2022-23



Source: placer.ai, Leland Consulting Group

Figure 15. Work Locations of Poulsbo Residents, 2022-23



Source: placer.ai, Leland Consulting Group

Topography and Critical Areas

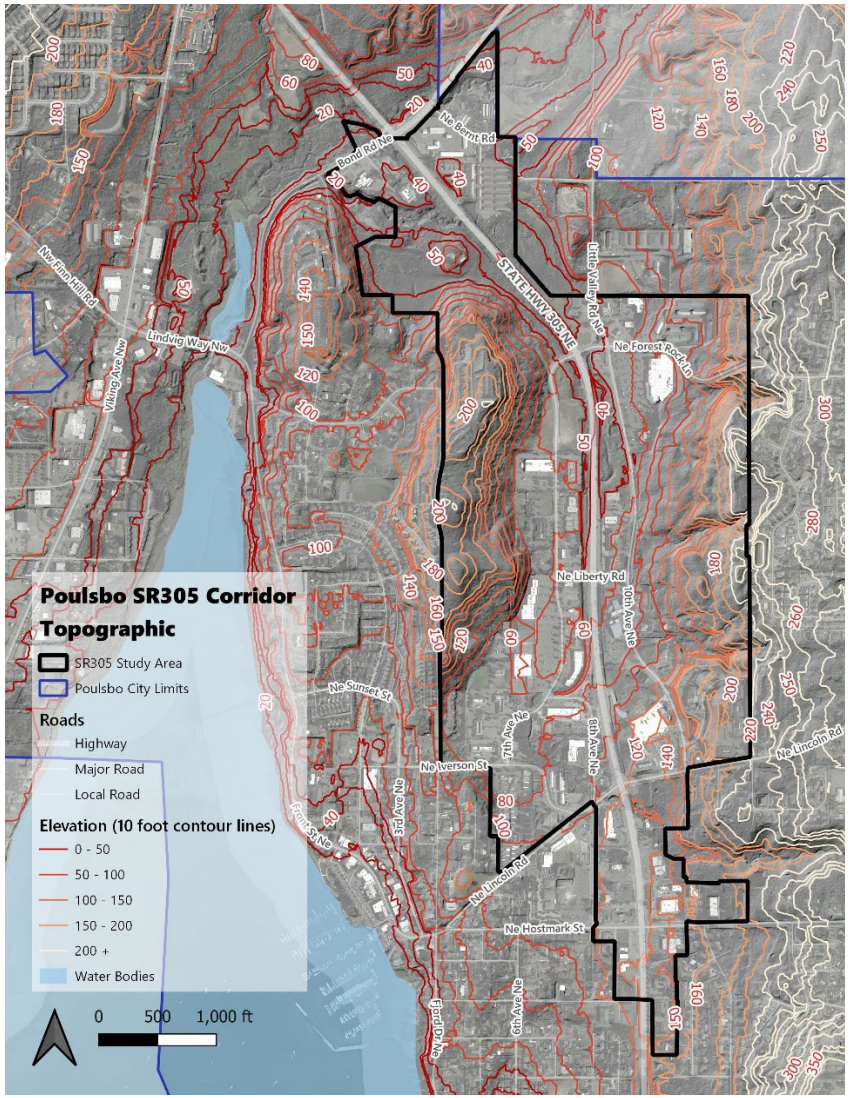
Much of the SR305 study area is steeply sloped on both sides of the corridor, particularly east of 7th Ave NE and west of 10th Ave NE, as shown below in Figure 16. These sloped areas are largely undeveloped, except for some residential condominium development at the top of the northwestern hill. The hillsides are between 150 and 250 feet higher than the highway itself, and slopes on the west side are slightly steeper, with a grade of up to 18 percent observed west of Poulsbo Village. On the east side, slopes are around 12 percent on most of the hillside. NE Forest Rock Ln is a particularly steep road at a grade which would exceed current allowances for a new road.

These topographical constraints represent a significant barrier to development in the subarea, as shown by the lack of development in these sloped areas. A recent report by Portland State University studied a variety of single-family and multifamily projects in Oregon as well as interviewing numerous developers and concluded that adding slope to single-family development sites increases development costs by 10 to 47 percent depending on slope and increases site development costs of multifamily projects between 73 and 99 percent depending on slope. Though the study did not quantify the additional cost for commercial development, this study demonstrates the strong negative impact that slope can have on development feasibility.

In addition to the hillsides on either side of the corridor, there are numerous other environmental constraints to development in the subarea. The South Fork of Dog Fish Creek runs alongside the highway and numerous other streams run within and down the hillsides. Many of these streams are mapped, but LCG's interviews with developers and engineers indicated that other unmapped streams likely exist in the area which can only be revealed by on-site engineering analysis. There are also hydric soils and wetland areas (mapped and unmapped) near the streams and bottom of the corridor, highly erodible soils near the top of the hills, and the hillsides themselves are classified as geohazards. These critical areas are shown below in Figure 17.

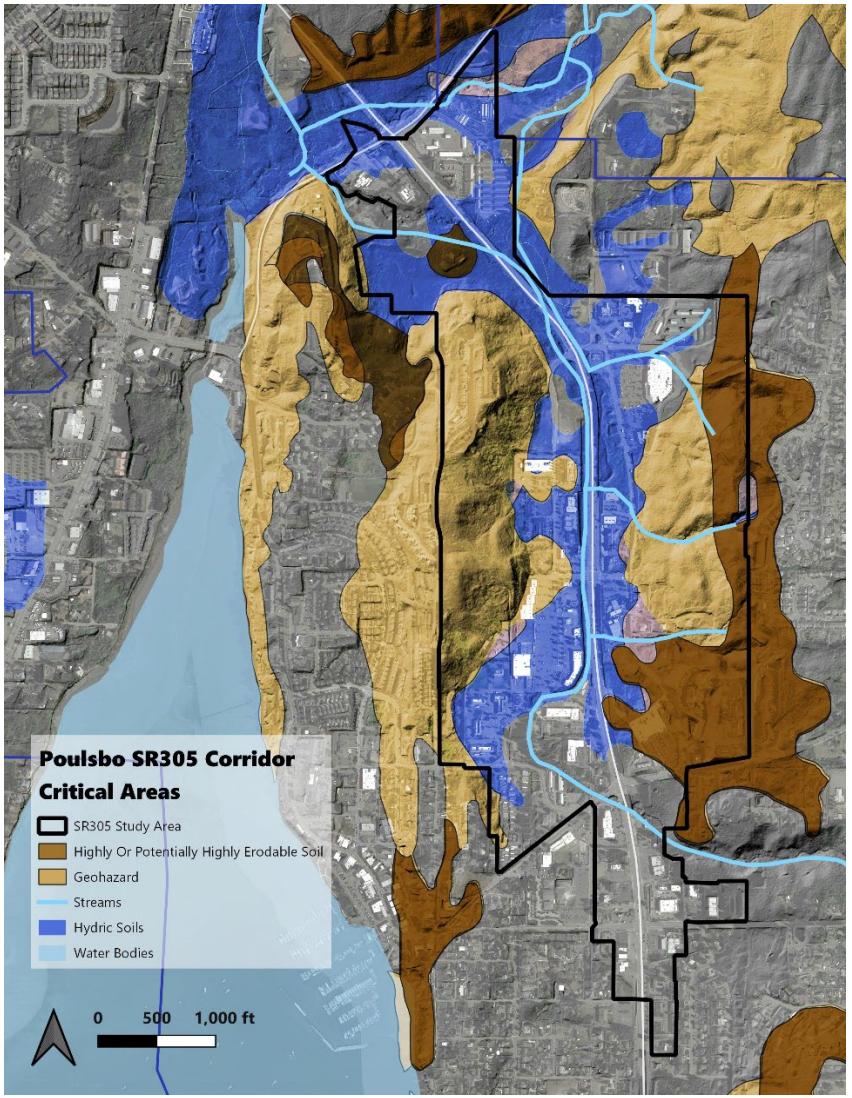
According to developers and site development engineers interviewed for this project, sites where significant slopes, streams, and hydric soils are known factors can also surprise developers with wetlands, streams, and other site development challenges that are unknown before development due diligence starts. These can add significantly to design, engineering, and construction costs, and prevent some development projects from being built. For example, wetlands that are mapped and are larger than anticipated can significantly reduce the amount of developable area, or streams that are found to be fish-bearing can require larger buffers. These environmental and topographic constraints can help explain the development patterns in the subarea and the areas that have not seen development. These constraints also suggest options for the city to consider if they wish to see more development, such as allowing lower-density residential development in the study area which may incur fewer additional development costs when compared to multifamily or commercial development on the hillsides.

Figure 16. Topography of SR305 Study Area



Source: Kitsap County GIS Data, Leland Consulting Group

Figure 17. Environmental Constraints in SR305 Study Area



Source: Kitsap County GIS Data, Leland Consulting Group

Key Takeaways from Existing Conditions Analysis

- Poulsbo's population has **grown rapidly** over the past several decades and is forecast to keep growing at rates exceeding regional and statewide averages, showing a need to **plan for new housing and employment opportunities** in the city in the coming decades, including along the SR305 Corridor.
- When compared with regional averages, Poulsbo residents are **older**, more likely to be **white**, more likely to be **college-educated**, and live in **smaller households**, although household size has increased slightly in recent years.
- Incomes and educational attainment in Poulsbo are broadly **similar to county and statewide averages** and to the population of University Place, whereas other comparison communities including Shoreline and Bothell tend to have wealthier and more highly educated populations.
- Developers of mixed-use, residential, and commercial real estate typically consider a **range of demographic data**—including household ages, sizes, incomes, and education— when they are making development decisions. Therefore, demographics are one influence on development outcomes, and redevelopment will tend to take place more quickly in more affluent areas.
- Poulsbo's economy has fluctuated over the past two decades, with **robust job growth since 2013 at about 3.1 percent per year**, though job growth has decreased since the onset of the COVID-19 pandemic.
- **Retail, health care, and hospitality** are the top job sectors in the city, and are all sectors expected to see significant gains in employment in the region in coming decades.
- Poulsbo has **relatively few jobs in professional and business services**, another sector expected to see job growth in the next 20 years. This may signal challenges for new office development in the city.
- As of 2020, **more people were commuting into Poulsbo than commuting out**, particularly in health care and retail jobs, and only about 750 residents both lived and worked in the city.
- Recent commuting trends based on cell phone location data show that **employees of the SR305 study area tend to commute in from other parts of Poulsbo and nearby locations in Kitsap County** whereas **Poulsbo residents tend to commute farther**, to Bainbridge, Silverdale, Tacoma, and the Seattle area.
- Much of the SR305 study area is **steeply sloped** on both sides of the corridor and the area contains **streams, wetlands, erodible and hydric soils, and geohazard areas**, all of which pose significant barriers to development by adding significantly to design, engineering, and construction costs.

Stakeholder Interviews: What We Heard

As part of this project, LCG conducted interviews with ten individuals involved in real estate development as developers, contractors, property managers, and engineers. This group of community stakeholders was able to provide excellent insight into the context for real estate development within the SR305 study area, Poulsbo, and other nearby areas in Kitsap County and the Puget Sound region. Summaries of the themes and issues heard in these interviews are provided below.

Interviewees

- Gary Lindsay, *real estate developer*
- Kelly Clark, *Chinook Contractors*
- Emily Authenrieth, *Poulsbo Village property manager*
- Greg Van Patten, *GVP Property Group*
- Mike Brown, *Sound West Group*
- Steve Yester and Morgan Sly, *RUSH Development*
- Berni Kenworthy, *Axis Land Consulting*
- Daniel Morse, *commercial property manager*
- Kane Fenner, *Brook Oak Real Estate*

Big Picture

- Developers are interested in building in Poulsbo:

  "It's a great place, it feels like Gig Harbor to us."
  "It's got that synergy between the downtown and other amenities."

- The SR305 study area is a tough place to build, because of the numerous physical and regulatory barriers.
- Most of the area is built out and it is more expensive to redevelop commercial land than greenfield land.
- There is a mismatch between demand, which is primarily for multifamily housing, and land supply, which is largely zoned for retail/commercial and office.
    - Development costs are about the same for housing or commercial development ($250 to $300/SF including hard and soft costs but not land cost).
    - Apartment rents are $3.00/SF, commercial rents are $1.50/SF. Even downtown, developers are looking to try to get commercial rents of $1.50/SF but cannot currently get $2.00/SF.
    - Commercial rents have not changed much in the area since the 1980s.

Housing

Stakeholders agreed that the demand in the Poulsbo market and in the study area is for housing, either single-family or multifamily. Most interviewees were more interested in developing multifamily than single-family housing in the area, but most of those interviewed are multifamily developers. As noted above under "Topography and Critical Areas," LGC's view is that single-family housing may be more feasible on the highly sloped lots in the study area. Interviewees felt that this demand for housing is coming from a mix of potential residents, particularly retirees and military employees. Most agreed that developing housing directly on SR305 is not ideal and that the west side of the corridor would be a better location, with better connections to downtown and to water.

Stakeholders held different views on multifamily scale and density:

> *"Rents in this location do not support structured parking. We need to be able to build surface parked projects. Underground parking projects require $300 per month in rent just to support the cost of one parking space."*
>
> *"We are evaluating an apartment project with structured parking."*
>
> *"We seek apartment projects of at least 100 units; 150 units is ideal (6 acres at 25 du/acre) and attracts lower-cost institutional investors."*
>
> *"We're building a multifamily project just off of NE 4th. It's on the flattest part of the site. My business partner has owned the site for 20 years."*

When asked about land price, interviewees indicated they would be willing to pay between $20,000 and $30,000 per door. One said they looked for a price of $12 per square foot of land. Overall, stakeholders agreed that there are a lot of housing units currently under construction in Kitsap County, with the potential for the market to get overbuilt in the short term.

Office, Retail, & Commercial

Interviewees agreed that Poulsbo has seen a drastic reduction in office demand post-pandemic due to increases in working from home, a trend also seen regionally and nationally. The exception to this trend is medical office space, which is doing well in Poulsbo and across the region. Some stories shared by property managers include:

> *"Masterworks occupied 20,000 SF pre pandemic, are reducing to 10,000 SF, but actually need less space than that – 5,000 SF? They may reduce their footprint further from the current 10,000 SF."*
>
> *"An information technology business relocated and left their 10,000 SF space; that is still vacant."*
>
> *"We like the idea of co-working and smaller spaces, and Vibe Coworks seems successful, but it's expensive to demise an existing large space into multiple small spaces."*

On the other hand, there seems to be a healthy demand for existing retail space in Poulsbo, but slow demand for new development. The most recent developments were two properties on 7th Ave. just west of Highway 305. All four properties were for sale in 2013 and now the Liberty Bank and Discount Tire have been developed on two of the sites. The study area faces competition from the large amount of flat, buildable land available at the Olhava Way Area. One stakeholder noted that developing in that area would be more logical for new office development with its proximity to Olympic College, lack of critical areas and slope, and proximity to Highway 3.

Multiple interviewees discussed the former Albertson's in Poulsbo Village, which has been vacant for several years and the subject of much speculation. The latest information is that there is a new potential tenant and Albertson's is optimistic about signing a lease in spring or summer 2023.

Public Safety

Some stakeholders expressed concerns over public safety in the commercial areas west of Highway 305, and others said this was an issue in other areas of Poulsbo as well:

> *"Crime and vagrancy have become big issues for us. People are living out of their cars in our parking lots."*
>
> *"Homelessness is worse than ever. There are some addicts or mentally ill individuals wandering around commercial properties/areas."*
>
> *"Thefts and break ins are worse than ever. It's worst at restaurants. Stores are experiencing more shoplifting."*
>
> *"So far, safety concerns have not affected business; people are still coming."*
>
> *"We will start to have a security patrol."*

Physical Conditions & Slope

Interviewees agreed about the difficulty posed by the steep slopes in the study area. They described some of the areas as having a slope of 20 percent or greater, whereas the maximum grade allowed for roads is 23 percent due to the fire code, and the maximum grade for multifamily residential projects is 5-6 percent due to ADA requirements. This creates huge costs and issues because roads must meander around a lot and sometimes cross over streams and even into neighboring properties, as well as creating a need for huge retaining walls to reach these lower levels of grade. Developers described some of their issues with slope:

> *"We are building a 468-unit apartment project on a site with a 10% grade. This is doable but the slope is less than in the study area. We started this in 2010 and just got preliminary approvals to build."*
>
> *"The Clear Creek project in Silverdale was a real eye opener—the 10% slope made it very difficult to meet ADA requirements."*
>
> *"We were evaluating a recent single family residential project (outside the SR305 study area but elsewhere in Poulsbo) and horizonal costs of development hit $150,000 per lot. We could not make the project pencil with those costs. When compared to a flat site, the additional costs are for retaining walls and grading. Stormwater is the same cost. We are reevaluating the project now/putting it on pause."*

Areas at the bottom and top of the hills are the easiest to develop and potentially geoengineer, whereas sites directly in the middle of the hills are the most difficult to develop. This is compounded by the narrow east-west properties in the study area, which limit developers' ability to build roads that meander across the properties and force steep roads, large retaining walls, and large foundations.

Several interviewees also discussed streams as a barrier to development, particularly fish-bearing streams, due to enhanced buffer requirements. Developers described difficulty knowing the exact locations of streams and wetlands or the buffer requirements before getting into the weeds of a site plan. Setbacks can be 50-100 feet without fish passage or 150-200 feet in fish-bearing streams, reducing the amount of developable area. The west side of SR305 is particularly encumbered by Dog Fish Creek which is a fish bearing stream and is surrounded by shrubs which cannot

be cut down, decreasing visibility of businesses. The Suquamish Tribe also has a role in reviewing critical areas near streams.

Finally, interviewees identified soils and geohazards as difficult issues throughout the study area and Poulsbo in general. Stormwater cannot be filtered through the soils, requiring the construction of stormwater vaults. The soils in the area also have lower bearing capacity than other types of soils, increasing the costs of foundations and overall construction costs.[2]

Zoning & Regulation

Many of the stakeholders discussed zoning and regulation around development in the SR305 area, centering around several themes: ground floor commercial requirements, parking, density and open space requirements, and fees.

Ground Floor Commercial Requirements

In the C-3 zone, found in the majority of the study area as shown above in Figure 1, multifamily development is only allowed as part of a mixed-use structure, and there is a requirement for 50 percent of ground floor space in mixed-use buildings to be commercial use (per PMC 18.80.080.J). Most developers interviewed felt this a large amount of space and expressed a lack of interest in building ground floor commercial space:

> *"There is a difference between cap rates for multifamily projects and commercial projects, so large ground floor commercial space can confuse potential investors and lenders."*
>
> *"Ground floor commercial space will be vacant in many locations, which is not desirable. It is a waste of money, and it can become a magnet for vandalism."*
>
> *"This will discourage housing projects or make them infeasible because there is not demand for commercial uses in all study area locations."*

Some developers have used a workaround, providing space for "short-term" housing such as a hotel or Airbnb in the ground floor space, which is classified as a commercial use. However, the definition of "short-term" is not clear, and this type of workaround is not ideal. A variety of zoning recommendations relating to ground floor commercial requirements can be found below under "Key Takeaways and Recommendations from Stakeholder Interviews."

Parking

Developers agreed that parking is an important consideration in all their projects. Current zoning requires one parking space for studios and one-bedroom units and two spaces for units with two or more bedrooms. Developers felt that this creates a disincentive to build two-bedroom units, which can be detrimental to housing choice. For structured parking, developers assume a cost of at least $40,000 per space, increasing the rent required for the unit.

Density and Open Space Requirements

The Residential High zone, found in the western side of the study area near the top of the hill, has a density requirement of 11 to 14 units. Developers feel that this is an unusual range for a high-density zone:

> *"This is an unusual density range! I can build detached single-family housing at 11 to 14 units per acre."*

[2] Several stakeholders suggested interviewing Shawn Williams at Envirosound Consulting for more information on soil issues in the study area.

> *"For garden style multifamily housing, we typically try to get 25 units per acre."*

This zone also has a 15 percent open space requirement, which is costly to developers and reduces density and affordability. Other methods for regulating density could be considered, as elaborated further in the "Key Takeaways and Recommendations from Stakeholder Interviews" section below.

Fees and Financing

Developers described utility/facility connection charges and impact fees of around $20,000 per apartment unit, one of the highest in the Puget Sound region. This includes fees for transportation/traffic, schools, and sanitary sewer. Developers are aware that one of the reasons the fees are so high is that the city does not have its own sewage treatment plant, so developers pay sanitary sewer fees to both the city and county. Several interviewees noted that fees are not charged during a change of occupancy. Other fees described include the 2018 Washington Energy Code, which added between $10,000 and $12,000 per unit in costs, and a city charge of 20 percent of the cost of capital improvements or tenant improvements. This fee must be put towards ADA improvements and does not exist in other jurisdictions. Developers feel that this deters changes of use, such as from office to retail. This fee is not administered by the planning department.

Some developers discussed the Multifamily Tax Exemption (MFTE) program, a statewide program allowing cities to grant property tax exemptions of 8, 12, or 20 years to multifamily projects meeting certain qualifications, such as providing a certain amount of affordable units. Poulsbo does not currently have an MFTE program, but developers felt that implementing an MFTE program in the city would improve the feasibility of projects that are pushing the envelope in quality or providing features that the city wishes to see but are not being provided at present. One developer mentioned that Bremerton's MFTE program was an incentive to develop in the downtown there:

> *"It provided an incentive of $12,500 per unit for one of our projects. We see this reducing our costs by $10,000 to $15,000 per unit."*

Key Takeaways and Recommendations from Stakeholder Interviews

- Developers are interested in building in Poulsbo, but **the SR305 study area is a difficult place to develop** because of physical and regulatory barriers, including slope, streams, low quality soils, and zoning restrictions.
- Most of the demand in the area is for **housing**. The **retail** market is active in existing buildings but with less demand for new development, and **office** demand has dropped significantly because of the COVID-19 pandemic.
- Some property managers and business owners have experienced increased concerns about **public safety**.
- Issues with soil, slope, and streams are difficult for the city to address, but the city could **consider some regulatory changes to encourage development in the study area**:
    - Currently, density in the RM/RH zones is regulated by units per acre and density in the C3 zone is regulated by lot coverage standards and parking regulations. Consider **regulating density by FAR** instead to allow flexibility for developers to build densities that are feasible while maintaining desired building size.

- Consider **reducing minimum front yard setback** to 0' to enable development that fronts directly onto the sidewalk, as in historic parts of downtown Poulsbo.
- Consider **allowing/encouraging shared parking ratios** between housing and commercial space in the same building.
- Identify where future transit nodes will be and consider **allowing lower parking levels near those nodes**.
- Explore a variety of options around **ground floor commercial space**:
  - Consider matching the C-1 zone outside of the shopfront overlay, which allows residential units that are "**constructed to commercial building and fire code standards**." Commercial code typically requires higher ceilings to allow HVAC, sprinklering, and different trash collection. There is a benefit of this approach to businesses since the tenant improvements tend to be much less compared to raw commercial space.
  - Consider allowing **well designed ground floor housing**, even if not constructed to commercial standards.
  - Consider allowing **live-work units**. Quincy Square and Marina Square in Bremerton both feature ground floor "live work" units.
  - The images below show two urban buildings that are of high quality, create varied and interesting street-level frontages, and feature **residential uses on the ground floor**. The neighborhoods of Brooklyn, New York, are some of the country's most pleasant urban neighborhoods and are comprised almost entirely of residential buildings. Ground floor commercial is not necessary or feasible in all locations.

Figure 18. Residential Ground Floor Uses in Portland, OR and Brooklyn, NY

Source: The Vaux, Punch

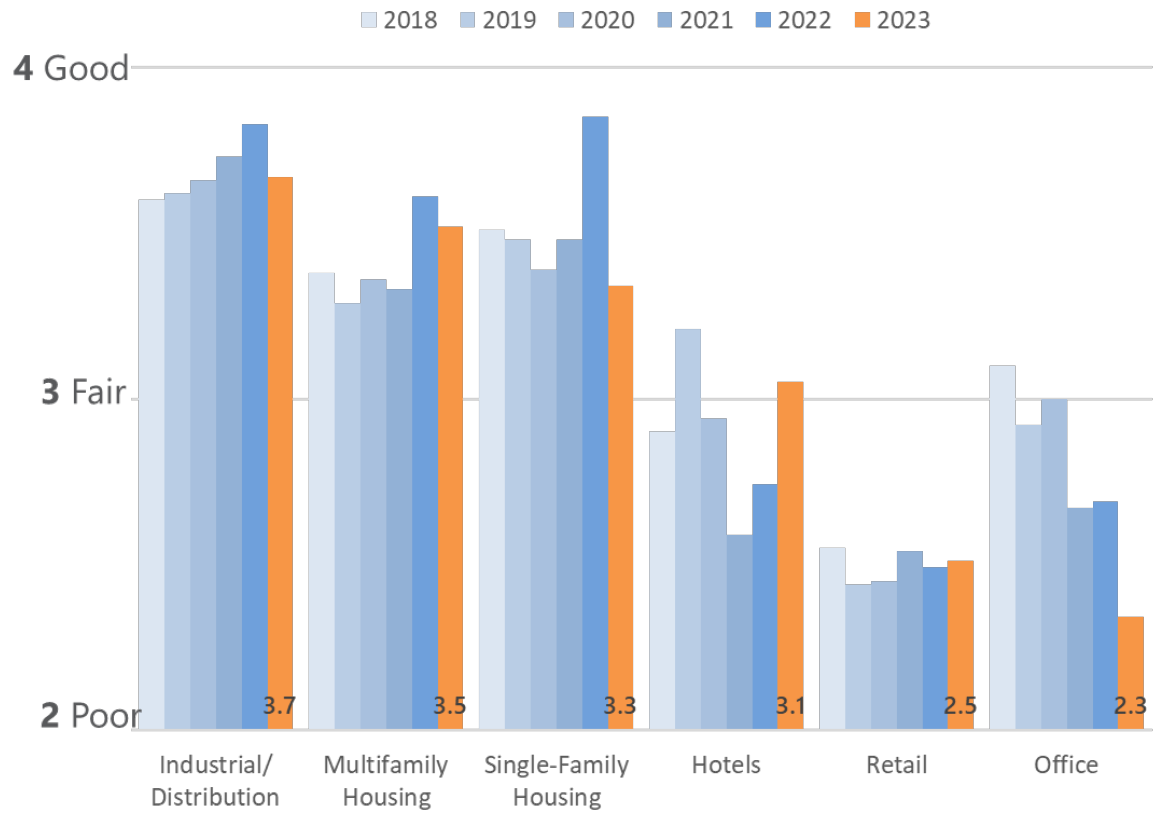
Real Estate Analysis

This section describes the existing real estate conditions in the SR305 study area, including recent sales, information on current regional and national trends, and comparisons with nearby corridor areas in order to explore case studies of corridor redevelopment. This section also presents an analysis of market opportunities in the study area and analyzes a number of key sites for potential development or redevelopment.

Real Estate Conditions

The chart below in Figure 19 summarizes responses from leaders of the real estate development industry nationwide when asked what development types they are most interested in building in the 2023 to 2025 timeframe. Industrial is the most desirable due to the large demand for distribution facilities for online retailers, and "reshoring" of formerly offshore manufacturing. Multifamily apartments remain desirable for developers due to continuing low vacancy rates and the inability for most households to afford for-sale homes. Single family housing is the next most desirable. Retail and office space are the least desirable development prospects, due to ongoing competition from online shopping, and unexpected popularity of working from home/remote working. Interest in office space has declined precipitously between 2018 and 2023. While this chart represents developer interest nationwide, LCG finds that these national trends impact most local markets.

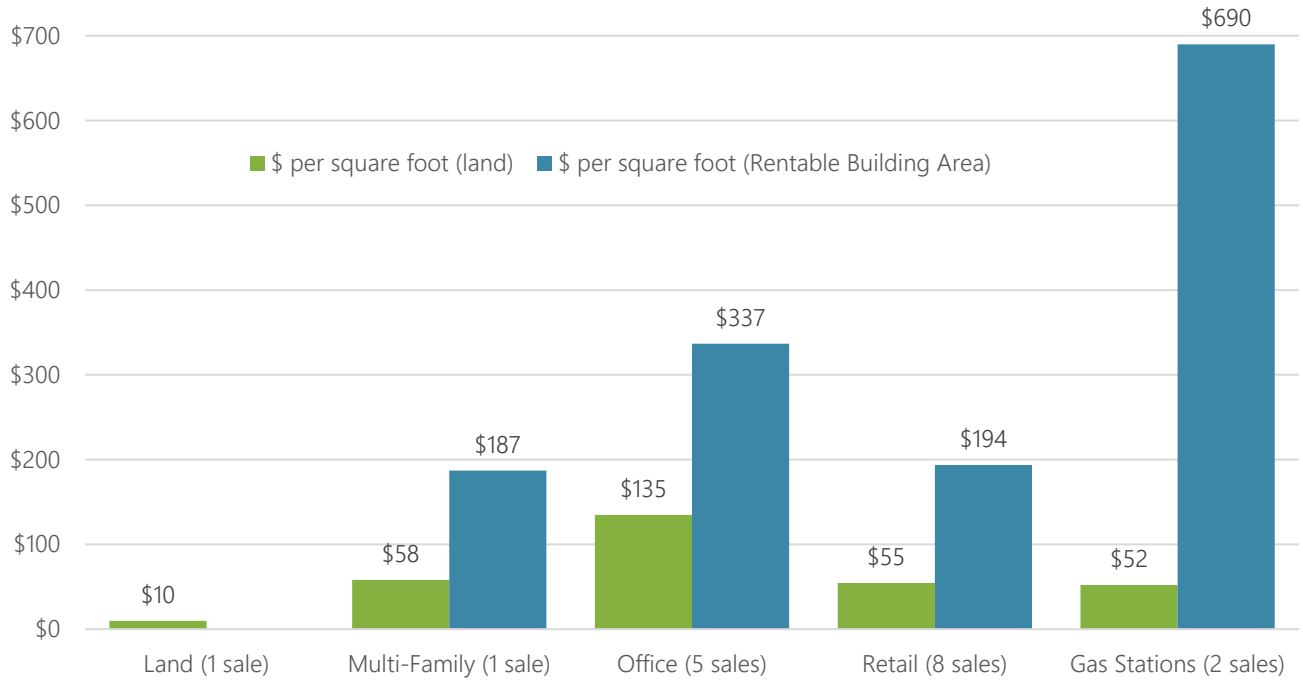
Figure 19. Urban Land Institute Development Prospects by Property Type, 2018-23



Source: Urban Land Institute, Emerging Trends in Real Estate, survey of 1,000+ real estate professionals, 2023.

In the SR305 study area, 17 commercial properties have sold in the past five years. A full table of sales and accompanying data can be found in the Appendix. Figure 20 below shows sales price data for these recent sales by property type. The one land sale that occurred was at a price of about $10 per square foot. Surprisingly, office sales have commanded higher prices than retail spaces per square foot, but this is partly due to the inclusion of the Creekside Center, a medical office building, in the office sales. The largest number of sales were in retail, with eight properties sold at an average price of $55 per square foot of land or $194 per square foot of building area. Gas stations were separated from other retail uses due to the extremely high price per square foot of building area, given the small building size. However, the land price per square foot of gas stations is similar to other retail uses.

Figure 20. Commercial Sales Prices in SR305 Study Area, 2019-2023



The images and statistics below in Figure 21 show four representative commercial and office sales in the study area, including storefront retail, restaurant, medical, and office buildings. These can give an idea of the types and prices currently supported by the market and help to visualize the prices for various types of buildings.

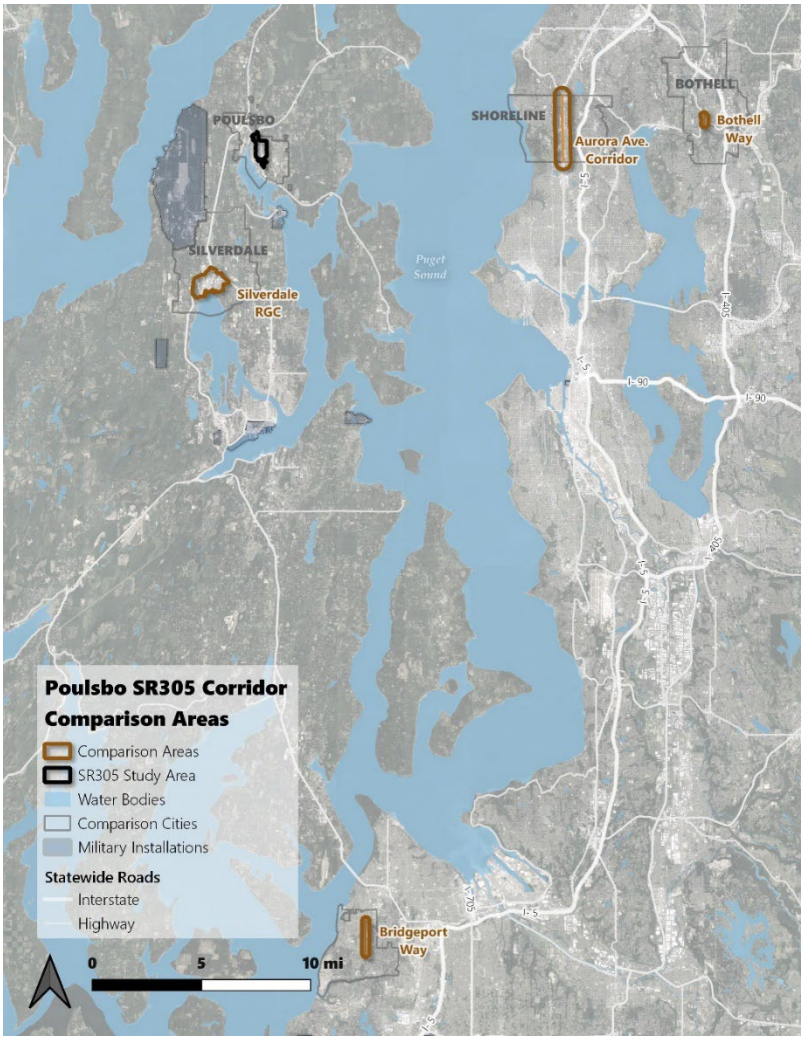
Figure 21. Representative Commercial and Office Sales in Poulsbo, 2019-23

Source: Costar

Comparison Areas

The comparison corridor areas selected for this study are shown at right. As outlined above in "Demographics and Households," Aurora Ave., Bothell Way, and Bridgeport Way were chosen because they have each seen notable corridor redevelopment efforts. Silverdale is the most comparable RGC area. Based on various demographic and redevelopment similarities with Poulsbo, this section provides a case study of the Bridgeport Way corridor in University Place. This is followed by an analysis of real estate development outcomes in the comparison areas, which can help Poulsbo to assess potential future development patterns.

Figure 22. SR305 Corridor Comparison Areas



Source: US Census TIGER/Line Shapefiles, Leland Consulting Group

Case Study: Bridgeport Way

During the late 1990s and early 2000s, the City of University Place redesigned and reconstructed Bridgeport Way, a major thoroughfare that carries some of the highest traffic volumes of any surface street in Pierce County. Prior to redesign, the road was five lanes wide. Today, there are four travel lanes, plus a median/turn lane, bike lanes, and sidewalks. One reason that the Bridgeport corridor redesign and redevelopment example appears to be relevant for Poulsbo is because of demographics: the two cities are quite similar in terms of household incomes, education, and other factors.

The Bridgeport Way corridor is 1.5-miles in length, with traffic volumes (ADT) of 25,600+. Initial goals were to add sidewalks and increase pedestrian and driver safety. Concurrently with the corridor redesign, the city began planning for their Town Center, a redevelopment adjacent to the corridor. To realize the Town Center redevelopment, the city acquired 22 acres of property, built a parking garage, completed stormwater improvements, and sought out private developers to develop city property. Today, the Town Center includes about 400 housing units within three projects, a Whole Foods, numerous other retailers, City Hall and library, attractive streets, plazas, and crossings, and other features. Most "vertical" development is nodal (i.e., within the Town Center) and has required proactive support from the city. Outside of the Town Center, there are a few other development projects of notable scale (multifamily housing with modest ground floor active use components). The photos below show the corridor and Town Center site before and after reconstruction and redevelopment.

Figure 23. Bridgeport Way before and after redesign

Figure 24. University Place Town Center site Before and After Redevelopment

This process took many years, particularly the Town Center redevelopment. The roadway improvements were planned from 1994-1997 and implemented in two phases between 1998 and 2002. The Town Center planning began around the same time, 1994-1997, and was rezoned in 1999. The land was acquired in 2003 and sold to developers. The civic center was developed before the 2008 recession, but most other new buildings in the Town Center, shown in the middle photo above, were not developed until after the recession. It took another decade, from 2012-2022, for the area to reach its current state of build-out. Since the corridor redesign, multi-family, institutional, and office uses have been much more prevalent than they were before 1998. Overall, 65,500 square feet of retail and office buildings dating from the 1960s-1990s were demolished in the corridor to make way for the new development.

Details on the three mixed-used projects in the Town Center are shown below, along with information about the associated land transactions and development incentives implemented by the city. With the completion of Lot 12 (now Bridgeport 125), 398 new market-rate units have been built in the Town Center over the past decade.

Figure 25. Mixed-Use Redevelopment, University Place Town Center

Project Attributes	Clearview 100	Latitude 47	Lot 12 (Terraces)
Site and Buildings			
Lot	8	10	12
Site Area	31,400	49,000	57,600
Developer	SEB	SEB	SEB
Year Built	2013	2015	2018
Dev. Type	Mixed Use Apts. over Retail Podium	Mixed Use Apts. over Retail Podium	Mixed Use Apts. over Retail Podium
Dwelling Units	100	173	125
Density (du/acre)	139	154	95
Commercial (SF)	11,440	8,140	10,000
% GBA	14%	5%	9%
Structured Parking	100	163	-
Parking Ratio	1.0	0.9	-
Gross Building Area (GBA)	80,000	170,000	114,000
Land Transaction			
Total Price	$800,000	$735,000	$865,245
Price PSF	$25	$15	$14
Price per door	$8,000	$4,249	$6,922
Year	2011	2013	2016
Development Incentives			
Public Land	Yes	Yes	Yes
Mixed Use Zoning	Yes	Yes	Yes
Development Agreement	Yes	Yes	Yes
Tax Abatement	No	Yes	Yes
Parking Spaces	100	163	-
Streets and Utilities	Some built by City	Some built by City	

Source: Costar, Leland Consulting Group

The city supported these projects in numerous ways, including the acquisition and sale of public land, modifying zoning to fit the City's vision for a mixed-use area, recruiting developers, signing development agreements, implementing an MFTE (8-year, partial tax exemption ordinance), building a parking structure accessible to two of the projects, building some streets and utilities in the Town Center, and making stormwater improvements. This demonstrates the level of municipal involvement in this large-scale redevelopment project. Several other photos are shown below.

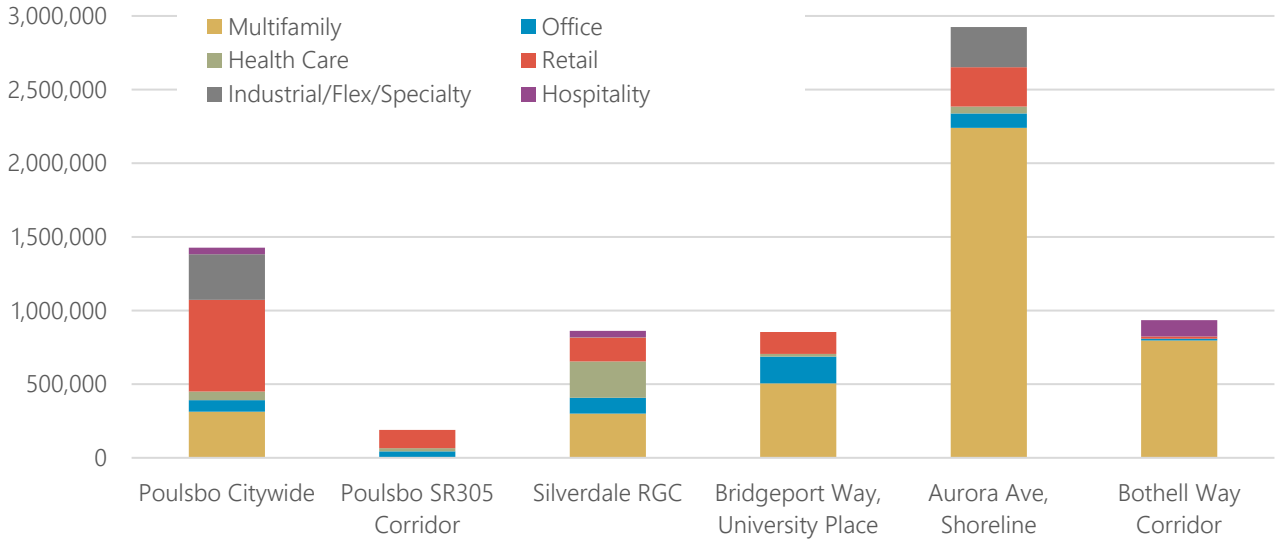
Figure 26. Bridgeview 125 & Latitude 47

Source: Costar

Development Comparisons

The following charts compare development activity in the SR305 study area, Poulsbo as a whole, and the comparison areas. Further maps showing the locations of commercial and residential development history and proposed projects in Poulsbo can be found in the Appendix. The chart below in Figure 27 shows the square feet (gross building area) of commercial real estate development that has taken place within the City of Poulsbo SR 305 study area, and the four comparison areas, over the last two decades. Overall, the study area has seen the least amount of development. Most of the development (123,000 SF) has been retail. On the other hand, multifamily development has comprised a large share of the development in the comparison areas. The amount of commercial area developed is a key driver of "activity units" (employees and residents)—which is a key metric tracked by PSRC and regional counties for Regional Growth Centers and other centers.

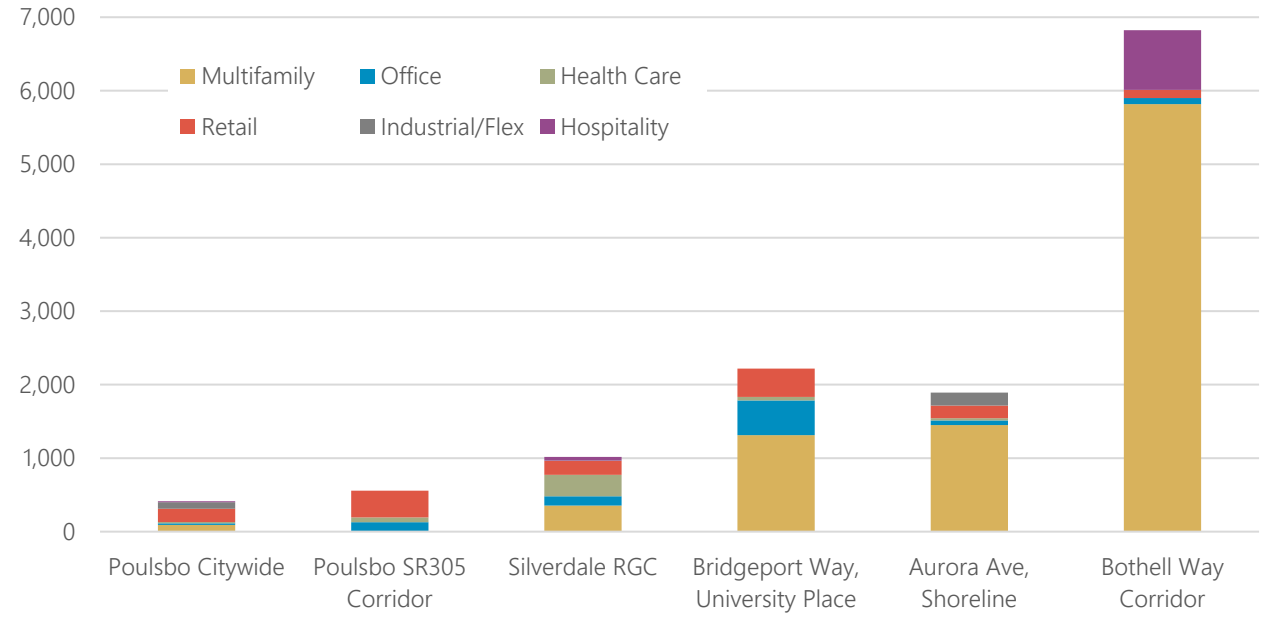
Figure 27. Square Feet of Development in Poulsbo and Comparison Areas, 2003-2023



Source: Costar

Figure 28 shows the density (square feet of building area per acre) of commercial real estate development that has taken place within the City of Poulsbo, study area, and the four comparison areas over the last two decades. Adjusting the above data for the size of each comparison area reveals some interesting trends. Development density in the study area has been low. This is not surprising since most of the development has been retail, which traditionally is low density compared to other development types. Development in Bothell Way has by far been the densest. In part, this is because the study area itself is smaller.

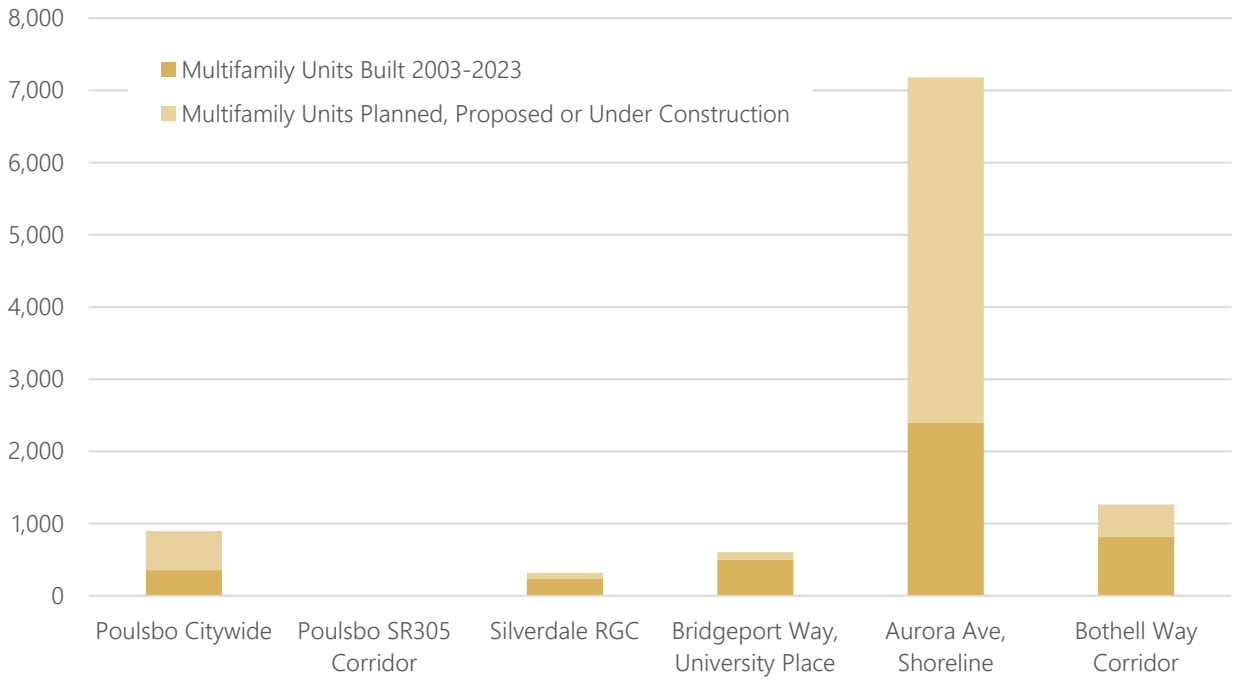
Figure 28. Density of Development (sq ft / acre) in Poulsbo with Comparison Areas, 2003-23



Source: Costar

Figure 29 shows the number of multifamily units that have been built in each of the areas over the last two decades, as well as planned, proposed, or under construction units. This chart does not show for-sale housing such as single-family homes, for-sale townhomes, or multistory condo buildings. However there have been far more rental apartment units than for-sale units built in these areas during the last two decades. Housing development is another key driver of activity units. The number of housing units built and proposed in the Bridgeport Way and Bothell Way corridors (603 and 1,265) provides a high-end benchmark for the number of housing units that could be built in the SR305 study area over the coming two decades, with Bridgeport being the most applicable.

Figure 29. Multifamily Units Built 2003-23 and Proposed/Under Construction



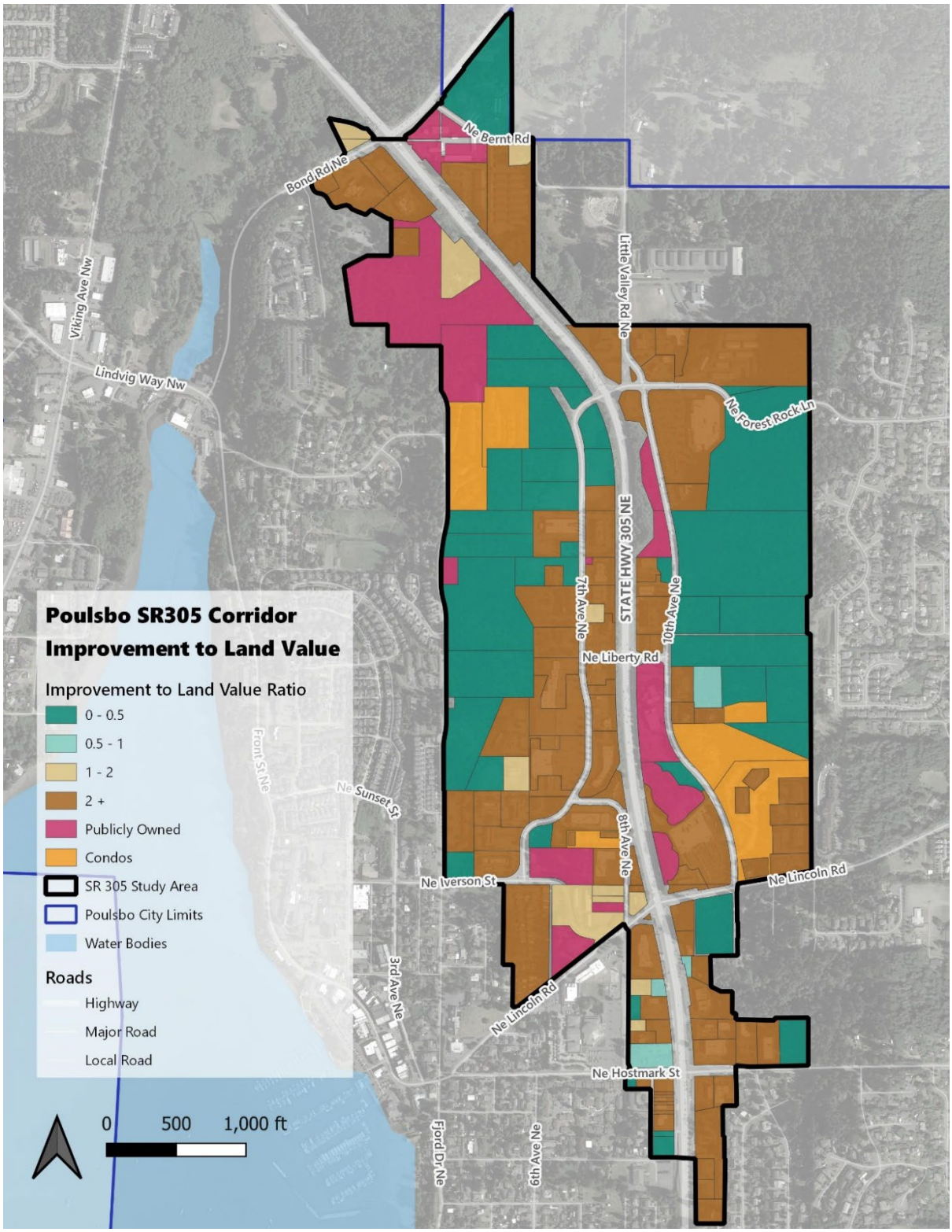
Source: Costar

Property Value and Likelihood of Redevelopment

This section discusses the likelihood of parcels in the study area to redevelop based on the assessed land and building value provided by the Kitsap County Assessor. Assessor's data is usually lower than the market price but reflects the relative value of the land and buildings and can give insight into which properties may be more likely to sell or redevelop in the near term.

Figure 30 shows the improvement to land value (I-LV) ratio for properties in the study area. "Improvements" are generally buildings or other structures on the land. A lower ratio, shown in green, indicates that the land is more valuable than the building, and a higher value, shown in brown, indicates that the building is more valuable than the land. All other factors equal, properties with lower I-LV ratios are more likely to redevelop since the land is worth more as a development/redevelopment opportunity than the structure. However, the data is imperfect since slopes, streams, and other issues can create challenges for development. No land value data is available for publicly owned and condominium properties and therefore these properties are shown in pink and orange, respectively.

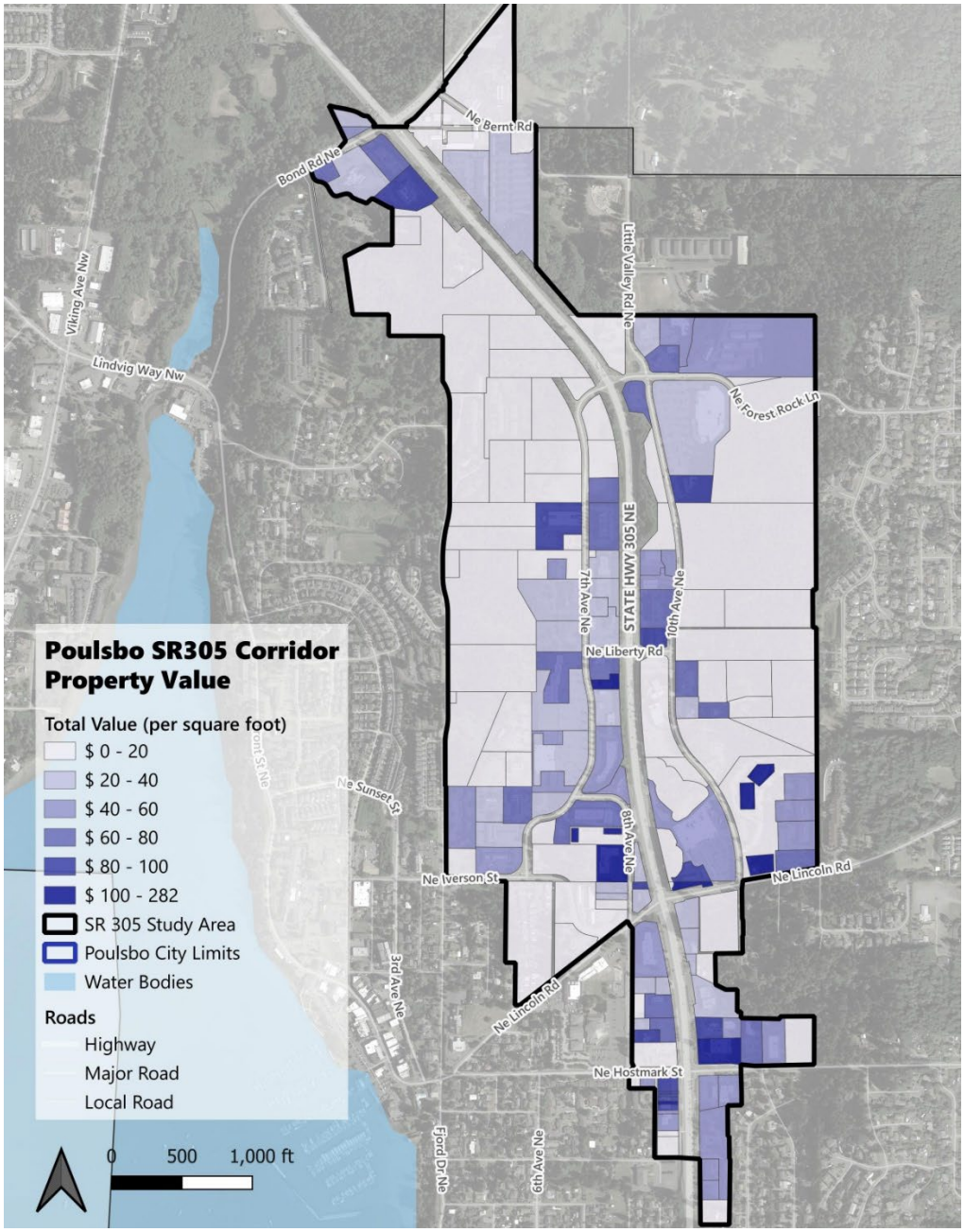
Figure 30. Improvement to Land Value Ratio in SR305 Study Area



Source: Kitsap County Assessor, Leland Consulting Group

Figure 31 shows the total value of the property (building and land) per square foot of site area. All other factors equal, lower-value land is more likely to be redeveloped since developers can acquire the land at lower cost, complete demolition or site improvements, and then complete vertical development. High-value properties are less likely to be demolished and redeveloped but are good candidates for incremental building improvements since they are valuable. Examples of high value properties include the Crabtree Kitchen/Vibe building, CVS, and others. Low value properties near high value properties represent particularly interesting development opportunities since this indicates an underutilized property near amenities or concentrated private investment.

Figure 31. Property Value Per Square Foot in SR305 Study Area



Source: Kitsap County Assessor, Leland Consulting Group

Opportunity Sites and Areas

Based on the analysis of the study area and developer interviews above, LGC evaluated the feasibility of both large development areas (e.g., the west and east hillsides) and individual sites made up of one or several parcels. The attributes of the ideal development opportunity in the study area are shown below. Very few sites have all these attributes:

- Flat or minimal slope.
- No wetland, stream, or geohazard.
- Vacant or underutilized
  (i.e., low improvement to land value ratio and/or low property value as shown previously)
- Good access and visibility (commercial uses).
- Large; good dimensions for development.
- Proximity to amenities such as views, parks, downtown, or other.
- No environmental contamination (not evaluated by LCG).

A partial list of other considerations used in evaluating sites includes:

- Publicly owned—can be beneficial.
- Zoned to allow multifamily, office, commercial, other.
- West side of 305: Has some advantages for higher density housing, given its proximity to downtown and water.
- East side of 305: Has some advantages for commercial, because of greater visibility and access (less vegetation than west) from northbound "going home side" travel.

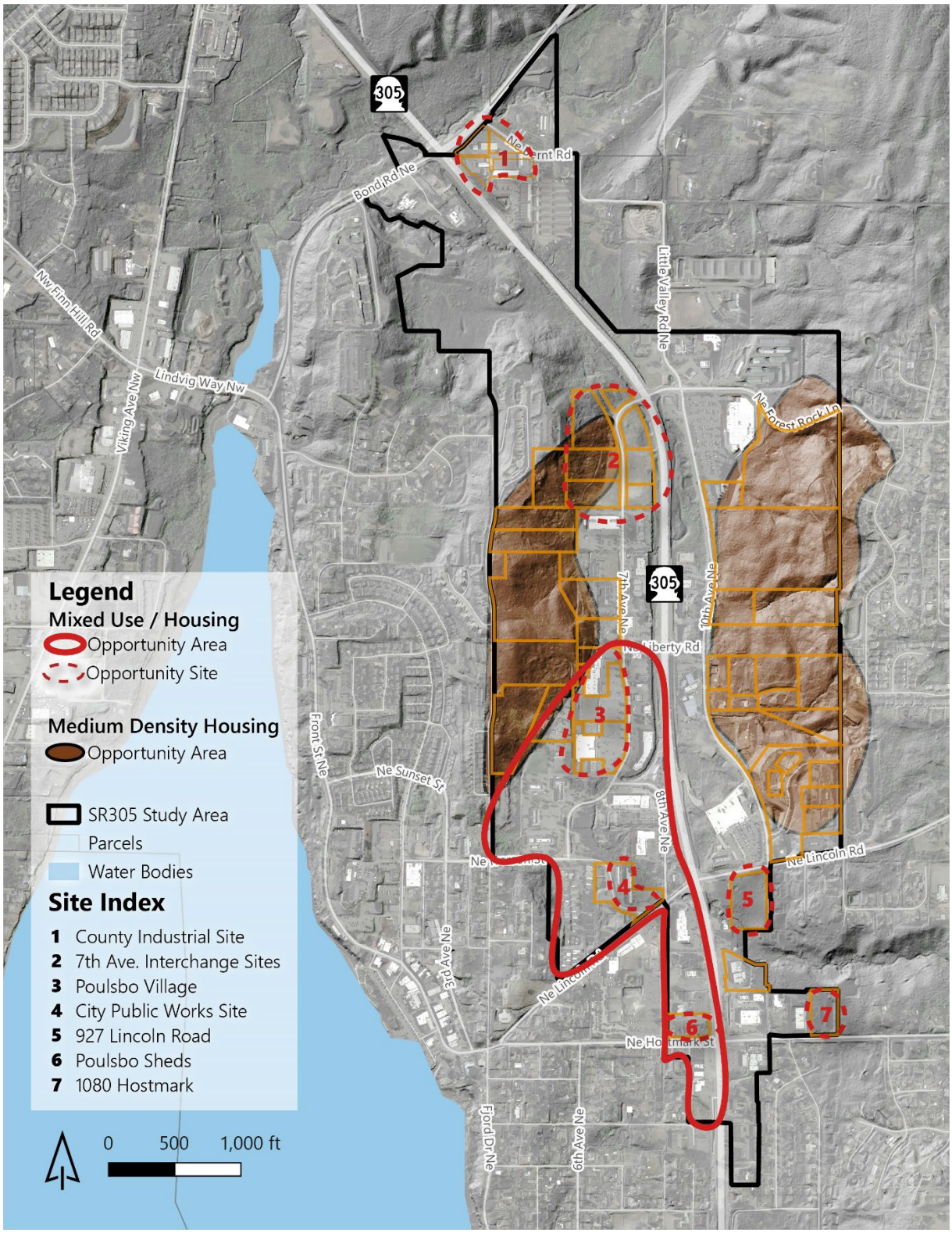
Based on these criteria, LCG selected seven opportunity sites and three opportunity areas in the corridor area. Figure 32 below shows the site names and acreages of these sites, and their locations are shown in the map in Figure 33 on the following page.

Figure 32. SR305 Opportunity Site Acreage

Site #	Name	Parcel Acreage
1	County Industrial Site	2.95
2	7th Ave Interchange Site	10.56
3	Poulsbo Village	9.25
4	City Public Works Site	3.06
5	972 Lincoln Road	2.55
6	Poulsbo Sheds	1.25
7	1080 Hostmark	1.62

Source: Kitsap County GIS Data

Figure 33. Opportunity Sites and Areas in SR305 Study Area



Source: Kitsap County GIS, Leland Consulting Group

Opportunity Areas

The map above shows two types of opportunity areas in the SR305 corridor – one for medium-density housing, shown in brown along the west and east hillsides, and one for mixed use and denser housing development, shown in a red outline in the SE part of the corridor area. Satellite images of these areas are shown below in Figure 34.

Figure 34. Opportunity Areas in SR305 Study Area

Source: Google Map

On the west hill, residential (multifamily) development is being evaluated, planned, or proposed for some of the upper, less sloped areas. While development will be difficult on these sloped properties, housing development—single family, middle housing, or multifamily—is more likely to be feasible than commercial development. Conditions on the east hill are reasonably similar to the west hill, though stream buffers here may be even more challenging.

In the SE area, there is more opportunity overall for mixed-use and denser residential development. This is the closest part of the study area to downtown, which is within walking distance of the SE corner of this area on Lincoln and Hostmark, both of which are reasonably pleasant two-lane roads with sidewalks on at least one side. This would potentially appeal to future residents of denser housing developments who may be less likely to have cars. Although there are some high-value commercial sites in this area, there is more potential for redevelopment than the area across SR305, which contains a grocery store and pharmacy, both of which are unlikely to redevelop given typical market trends. Therefore, this area represents the best section of the SR305 corridor study area for the city to consider a mixed-use center type development and placemaking vision over the coming decades.

Opportunity Sites

The seven individual opportunity sites shown on the map above have distinct strengths and weaknesses detailed in this section. Information is drawn from developer interviews described above, observations based on the regional and local real estate conditions, and during a site tour of the area conducted by LCG in January 2023.

Site 1 – County Industrial Site

The County plans to dispose of this large industrial/maintenance property in the future. The site has excellent accessibility and visibility, and could be appropriate for retail/commercial, healthcare, residential, public, or other development types. Environmental investigations should be completed as soon as possible to understand how soil issues will impact potential development. The City may want to take an active role in helping to plan future uses for this property.

Site 2 – 7th Ave. Interchange

These lots are among the least constrained undeveloped sites on the West side of 305. A bank has recently opened on the lower parcel. The upper parcel is for sale. The city should consider zoning modifications that encourage multifamily development, though commercial development is also possible here.

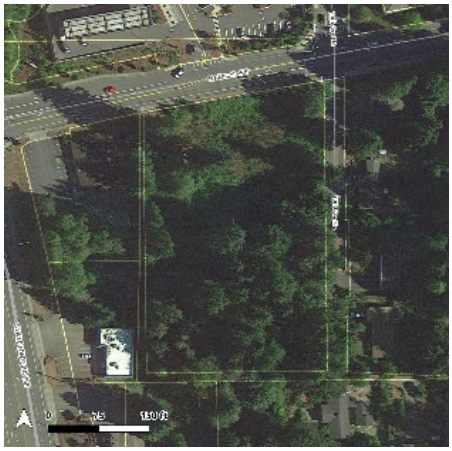
Site 3 – Poulsbo Village

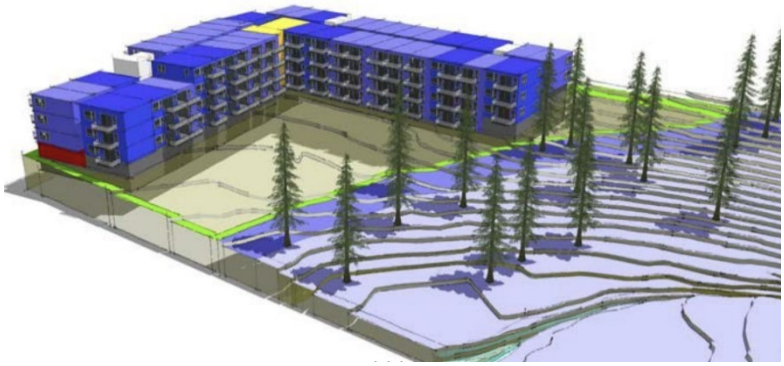
This is a large collection of properties with several owners. All but Albertsons and Rite Aid are owned by the same ownership group. It has good access and visibility and is also proximate to downtown. Its size makes it unique in the study area. While the buildings are reasonably well maintained, their older age and tenant mix suggest that this property could offer some redevelopment opportunities over the next two decades. The long-vacant, former Albertson's building is in this center, and there are rumors that a new tenant could be signed this year.

Site 4 – City Public Works Site

This site is made up of two parcels as shown. The city has relocated most of the public works site and is exploring revisions to 8th Avenue that could impact a portion of Parcel 1 , and is interested in selling the Coffee Oasis building currently on Parcel 1. This site has been discussed as a potential farmers' market and/or a redevelopment opportunity. There is a mapped creek on the north side of the parcel, shown in the image to the left. The creek could serve as an amenity for development on the site, but buffers may also pose a challenge for development, potentially reducing site area.

Site 5 – 927 Lincoln Road





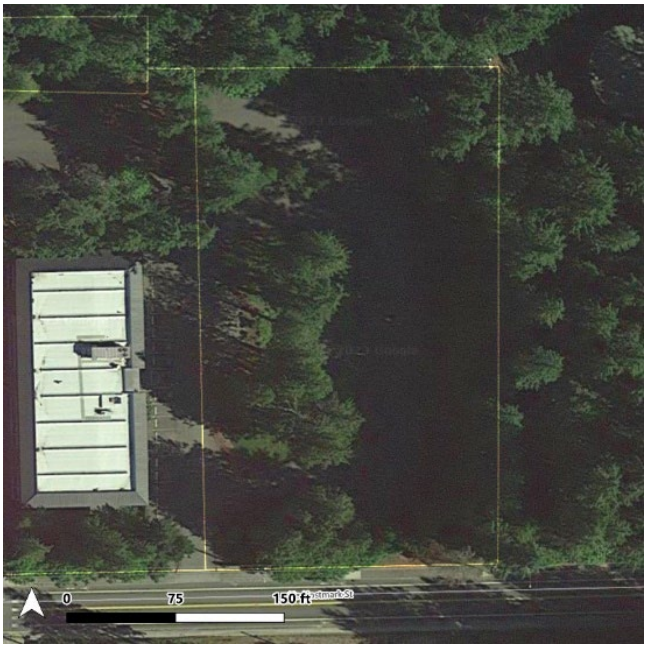
This is one of the more promising sites for near-term development in the corridor, since it is sizeable, flat, and underutilized. It was recently purchased, and the new owner is considering a mixed use building, with multifamily housing, as shown in the rendering above, provided to Costar by the developer. The rendering is a good indicator of the type of development that is most in demand in the marketplace today—multifamily housing that is three, four, or perhaps five stories.

Site 6 – Poulsbo Sheds

This is another promising site that is reasonably sized and flat, and underutilized. Based on LCG's methodology, it should redevelop in the coming years or decades. It has excellent visibility from two main roads and is close to downtown. It could be a great mixed-use "gateway" site that links the 305 corridor to downtown Poulsbo.

Site 7 – 1080 Hostmark

This is a vacant parcel without significant slope or other constraints in SE corner of study area. There are potential agreement and parking issues that have left this parcel undeveloped, but city staff believe these issues can be resolved with the right developer.



Key Takeaways from Real Estate Analysis

- Nationwide, developers are most interested in building **multifamily housing** and **industrial/distribution** properties, with stubbornly low interest in retail and office development since the onset of the COVID-19 pandemic.
- In the SR305 study area, **17 commercial properties have sold in the past five years**, with an average land price of around $50 per square foot for retail and $135 per square foot for office. Prices per square foot of building area average $194 for retail and $337 for office. The relatively high office prices may be due to the sale of a larger health care building in the area.
- When compared with nearby comparison areas, the SR305 corridor area has seen **considerably less development** than corridor areas in Silverdale, University Places, Shoreline, and Bothell, particularly in multifamily development.
- One regional comparison area of interest is Bridgeport Way in **University Place**, which has a similar demographic and income mix to Poulsbo. This corridor and the Town Center area have seen a significant amount of redevelopment over the past two decades because of proactive planning, rezoning, and city investment in infrastructure, land, and tax exemptions.
- **Nine opportunity sites** and **two opportunity areas** for development were identified in the SR305 study area. These were identified using physical conditions, relative land and building value, size, and location. Further considerations of these sites can be found below under "Development Feasibility."

PSRC Centers Framework Analysis

This section evaluates PSRC's Centers Framework in relation to the SR305 corridor in order to determine the feasibility of achieving target densities for consideration as a Regional Growth Center during the planning period.

PSRC Centers Background and Eligibility Requirements

PSRC's Regional Growth Strategy, VISION 2050, calls for focusing growth near transit and in centers, corresponding with significant regional investments in transit over the coming decades. Regional Growth Centers (RGCs) are defined as:

> *"Locations characterized by compact, pedestrian-oriented development, with a mix of office, commercial, civic, entertainment, and residential uses. Regional Growth Centers are envisioned as major focal points of higher-density population and employment, served with efficient multimodal transportation infrastructure and services."*

VISION 2050 includes a goal for 65% of the region's population growth and 75% of the region's employment growth to be in Regional Growth Centers and within walking distance of high-capacity transit. Figure 35 shows the locations of currently designated Regional Growth Centers across the Puget Sound region. Regional Growth centers can be one of two categories – a Metro Growth Center, with higher density requirements of the scale found in major cities such as Seattle, and an Urban Growth Center, with regional or suburban-level densities. This analysis will use the requirements for an Urban Growth Center.

PSRC has established various eligibility for new Regional Growth Centers, including:

- Local commitment and investments in creating a walkable, livable center.
- Completion of a subarea plan or equivalent that provides detailed planning and analysis.
- Should be located within a city.
- Existing infrastructure and utilities sufficient to support new center growth.

Figure 35. Current PSRC Centers

Source: PSRC

Figure 36. Urban Growth Center Criteria

Existing Density	18 activity units / acre
Planned Target Density	45 activity units / acre
Mix of Uses	15% residential and employment
Minimum Size	200 acres
Maximum Size	640 acres
Transit	Existing or planned bus, BRT, or other frequent and all-day bus service
Market Potential	Evidence of future market potential
Role	Center serves as important destination for county and jurisdiction is planning to accommodate significant residential and employment growth under regional growth strategy

Activity Unit = 1 person or 1 job

Source: PSRC

Size, density, and other criteria for RGCs are shown in Figure 36. Note that PSRC uses "Activity Units" to measure density. One "activity unit" is equal to one person or one job.

SR305 RGC Analysis

Current metrics for the SR305 study area are shown in the table in Figure 37. As shown, the SR305 study area has a current density of eight activity units per acre, considerably lower than the required 18. Most of the current activity units in the study are area jobs, as there are few residents in the corridor. As a result, the corridor also falls below the required 15 percent residential mix required for RGC consideration.

Figure 37. Current SR305 RGC Metrics

	Current	Required
Acres	340	200-640
Population	201	n/a
Jobs	2,493	n/a
Activity Units	2,490	n/a
Activity Units / Acre	8	18 current, 45 planned
Residential Mix	7%	15%
Employment Mix	93%	15%

Source: Kitsap County GIS, PSRC
(Activity Unit counts received from PSRC 4/14/23)

To forecast potential future RGC metrics for the SR305 study area, Bridgeport Way in University Place and Bothell Way in Bothell were used as comparison areas. Both have seen significant redevelopment since 2003. As discussed previously in this report, University Place more closely matches Poulsbo's demographics, incomes, and redevelopment potential and therefore represents a more realistic future scenario for forecasting the potential of the study area.

Figure 38 shows the density of development which has occurred in the comparison areas over the past 20 years. As noted above in "Real Estate Analysis," Bothell has seen a very large number of multifamily units developed over the past two decades, about three times the density of the Bridgeport Way area. Bridgeport Way and Bothell Way have both seen a similar amount of commercial RBA (rentable building area in square feet) developed over the past two decades.

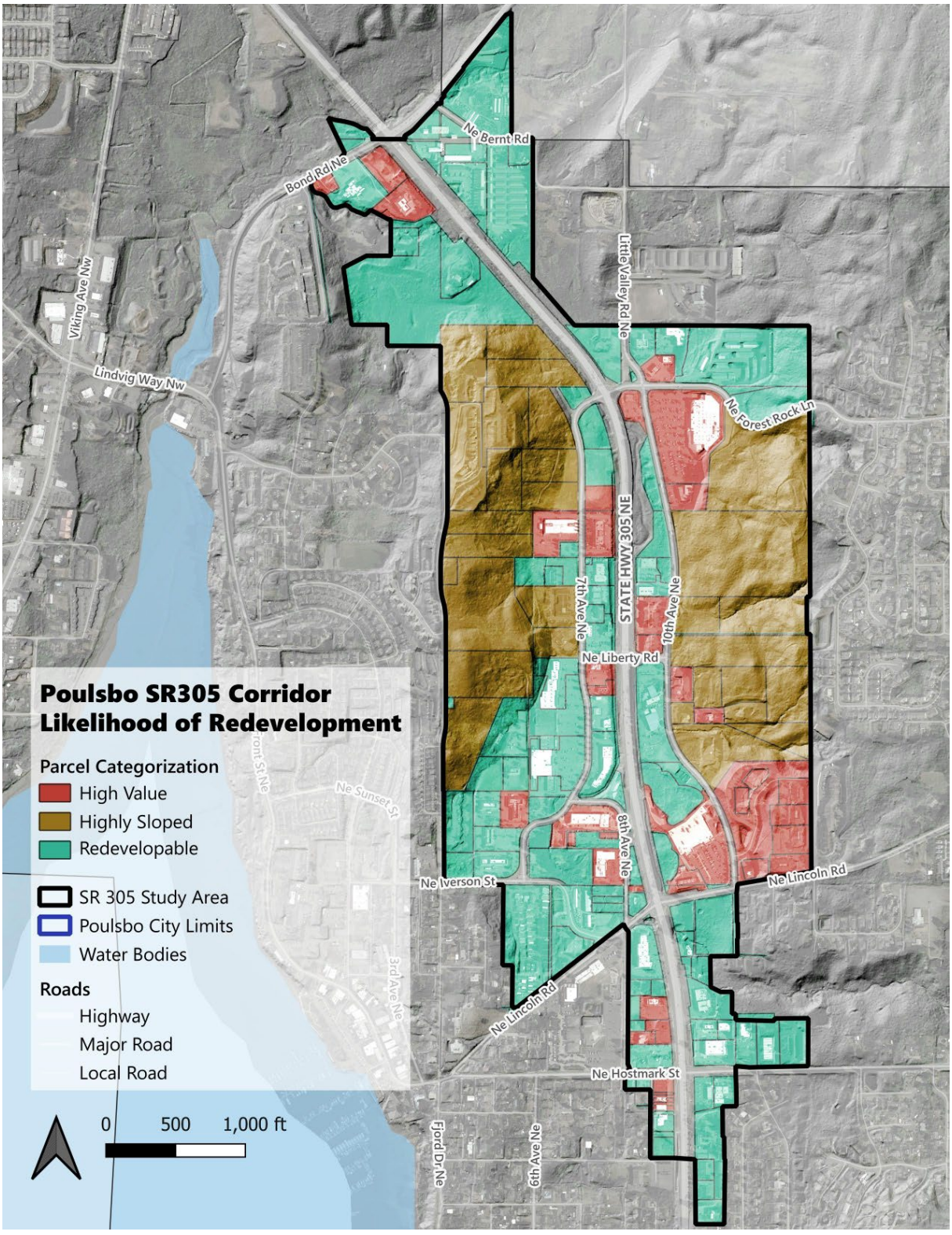
Figure 38. Comparison Area Densities – Last 20 Years

	Bridgeport Way (UP)	Bothell Way
Total Acres	385	137
Acres Redeveloped 2003-23	20	11
Share of Total Study Area Acreage Redeveloped 2003-23	5.2%	8.1%
MF Units Built 2003-23	499	821
MF Units per Gross Acre Redeveloped 2003-23	25	74
Commercial RBA Built 2003-23	368,472	169,716
Commercial RBA per Gross Acre Redeveloped 2003-23	14,483	15,387

Source: Costar

To apply these comparison area densities to the SR305 study area, parcels with high value and sloped areas were considered unlikely to redevelop and excluded from the analysis. The remaining parcel acreage, shown in green on the map in Figure 39, was analyzed to determine both the maximum capacity and likely amount of redevelopment based on both comparison areas. "Maximum capacity" refers to a scenario where all the parcel acreage shown in green would redevelop at the densities of the comparison areas. This is extremely unlikely to occur in the next twenty years but gives an idea of what could eventually happen in a "full build-out" scenario. The "likely" scenario is based on the share (in acres) of each comparison area which was observed to redevelop over the past twenty years: five percent of the total acreage in University Place and eight percent in Bothell. This gives a much more likely indication of what could be expected over the next twenty years in the study area under the two scenarios.

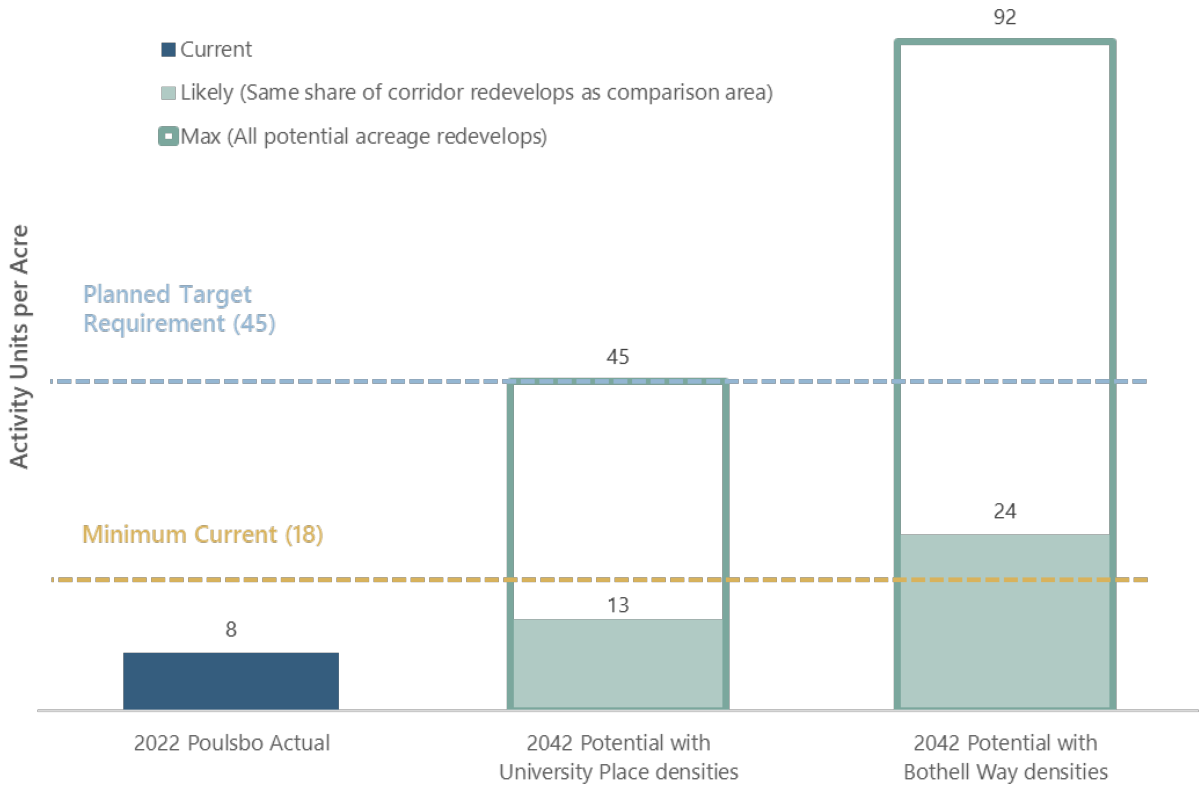
Figure 39. Likelihood of Redevelopment in SR305 Study Area



Source: Leland Consulting Group, Kitsap County Assessor Data, Kitsap County GIS Data

A summary of the results of this analysis is shown below in Figure 40. Currently, the study area does not meet the minimum threshold of 18 activity units per acre. Using the density and rate of development seen in University Place as a model, it is unlikely the study area would meet the minimum criteria for RGC consideration even in twenty years. However, if the full study area were built out at the densities seen in University Place, there could be the potential to reach the target requirement of 45 activity units per acre, though as discussed above, this is extremely unlikely to occur. If the study area developed at the more aspirational densities of Bothell Way, the minimum density required for RGC consideration would likely occur within 20 years. Under these densities, a full build-out scenario would greatly exceed the required target density of 45 activity units per acre, but again, this maximum potential scenario is shown as a benchmark rather than a scenario which is likely to actually occur over the next two decades. Further charts and tables showing a breakdown of population, jobs, and units can be found in the Appendix.

Figure 40. SR305 Corridor 20-Year Activity Unit Analysis with RGC Targets



Source: Costar, King, Pierce, and Kitsap County GIS Data, Leland Consulting Group

Reviewing the density of development in comparison areas shown above in Figure 28, there does not seem to be an obvious correlation between RGC designation and development outcomes or transportation funding. For example, both Aurora Avenue and Bothell Way have seen a large amount of development, particularly multifamily units, without having RGC designations. Bridgeport Way's corridor improvements were made long before its designation as an RGC, and Silverdale, although designated as an RGC, has seen neither a significant amount of redevelopment nor corridor improvements since being designated an RGC. This suggests that the city's desired potential outcomes for corridor redesign and/or development in the SR305 corridor could be accomplished with or without RGC designation.

Key Takeaways from PSRC Centers Framework Analysis

- The current Activity Unit density in the SR305 corridor is **well below** the required 18 Activity Units per acre, and given the most likely scenario where the study area develops at the density of Bridgeport Way in University Place, the study area still may not achieve the required minimum within twenty years.
- The SR305 Corridor can probably provide the required **capacity** for future development (45 AU/acre), but actually realizing the required amount of development will be challenging.
- LCG does **not see an obvious correlation** between RGC designation and development outcomes or transportation funding based on regional trends.
- Some **geographic changes** may make RGC densities more feasible. For example, a narrower area around the corridor which excludes the hillsides could be proposed, or Downtown Poulsbo could be added to the proposed area to increase Activity Unit density.

Development Feasibility

The purpose of this section is to share the results of LCG's pro forma financial analysis of potential future development within SR305 study area. A pro forma is a tool used by developers and development analysts such as LCG to understand the attributes of a given project, particularly the return on investment and whether the project is financially feasible (worthwhile for the developer to undertake) or infeasible (not worthwhile for the developer to undertake).

Key Development Considerations

The conditions that affect real estate development feasibility are constantly changing and impacting developers' assessment of whether or not projects are feasible and have attractive rates of return.

In general, conditions for new development in 2023 are less favorable than they have been in the recent past, for the following reasons:

- **Higher rates.** In 2023, developers are facing rates of borrowing/financing from banks and other lending institutions that can be twice as high or even higher than the rates that were offered between 2015 and 2022. In 2022, reports are that permanent financing could be secured in the range of 3.0 to 4.0%, whereas today, rates of 6% to 8% are quoted. The cost of construction financing and permanent financing, which is linked to the federal funds rate, is one important driver of developers' overall project costs. As financing costs increase and project revenue remains the same, project returns decrease, and fewer projects are feasible. Over the past year, the federal government has intentionally increased the federal funds rate in order to slow inflation and the overall economy. Higher rates are among developers' biggest concerns in 2023, and many developers have decided to put their projects on hold as they wait for borrowing rates to come down again. In LCG's financial models, higher rates are most clearly reflected in slightly higher "cap rates" (capitalization rates) and higher target rates of return: When developers' financing costs are higher, they target higher rates of return in order to cover those higher costs.
- **Construction costs.** Between 2018 and 2023, national cost estimation firm RLB estimates that construction costs have increased by 34%, or 6.0% annually—faster than the average rate of inflation, wages, and rent revenues in most locations. While construction cost escalation may be slowing, developers continue to struggle to get projects to "pencil" given this run of rapid cost escalation.
- **Recession concerns.** Many developers and lenders are concerned about the likelihood of a recession, which could be caused by higher interest rates and slowing levels of capital investment and hiring across many industry sectors. Concerns about recession are another factor that is causing some developers to put new projects on hold.
- **Other issues.** Narrower issues—many of which are discussed elsewhere in this report—such as high vacancies and an uncertain outlook for the office sector and some retail properties are also affecting development decisions and causing developers to build less office and retail space than was built in past decades.

Figure 41 below shows the federal funds effective rate over the last 10 years. During the 2013 to 2017 period, and again during the COVID-19 pandemic, this rate was well below 1.0% and therefore the cost of borrowing was effectively zero. This rate is set by the Federal Reserve and serves as a baseline from which other lenders (e.g., regional banks) determine the rate of interest they will charge to borrowers (e.g., real estate developers). When the federal funds rate increases, the cost of borrowing for real estate developers generally increases as well.

Figure 41. Federal Funds Effective Rate, Last 10 years

Source: Federal Reserve System/FRED: https://fred.stlouisfed.org/series/FEDFUNDS

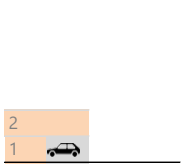
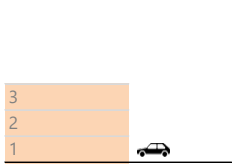
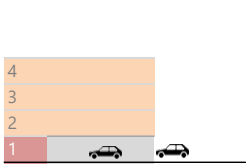
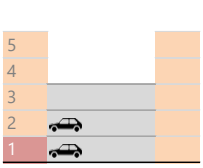
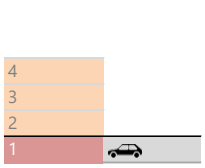
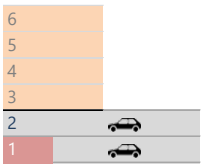
Development Prototypes

When real estate developers consider building on a particular site, they often try to determine which "prototype" of development is appropriate before getting into detailed site analysis and design.

The way in which parking is provided (surface, tuck under, or structured) is a key influence on the physical form of these projects because the cost of parking is a key variable that significantly affects the overall cost of projects. For example, LCG assumes that the hard cost (construction cost, which does not include fees, financing costs, or other soft costs) of a single above-grade parking stall is about $42,000. The cost of surface parking is minimal, since developers must already grade, flatten, and prepare sites. Therefore, developers think very carefully about whether the site under consideration is appropriate for higher-density prototypes that include structured parking. The prototypes also differ in terms of their primary structural building materials (i.e., wood frame, concrete and steel, other), amount of commercial space, and other attributes.

Housing and Mixed-Use Prototypes. The financial analysis in this report is focused on the three housing and mixed-use prototypes highlighted below. Garden apartments are one of the most common types of multifamily (rental) housing built in the Puget Sound and nationwide. They are wood frame buildings, surface parked, and generally three stories, though they can vary between two and four stories.

Figure 42. Housing and Mixed-Use Development Prototypes

Name	Townhomes	**Garden Apartments**	Urban Garden Apts.	Wrap	**Mixed-Use 1** Aka "Podium" Per Poulsbo C3 Code	**Mixed-Use 2** Aka "Podium" Typical in region.
						
Parking	Surface / tuck under	Surface	Surface and tuck under	Structured	Structured	Structured
Structure	Wood frame	Wood frame	Wood over concrete	Wood with concrete	Wood over concrete	Wood over concrete
Floors	2	3	4 to 5	5	4 (Per Poulsbo C3 Code)	6 to 7
Typical Density	15	30	45	60	80	135

Key

Types of space:

- Residential
- Commercial
- Structured Parking
- Surface Parking
- Office

The intent of the Mixed-Use 1 prototype is to reflect the type of (mixed-use) buildings that are permitted by the City's current C3 zone, and feature three stories of wood-frame rental housing over a first-floor concrete podium that contains ground floor commercial space; lobbies, elevators, stairs, and other building "core" areas; and structured parking. Mixed-Use 1 sites may also include some surface parking. Per the City's code, this prototype assumes that 50% of the ground floor area (or 22,000 square feet) is retail/commercial space.

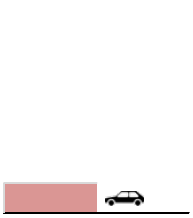
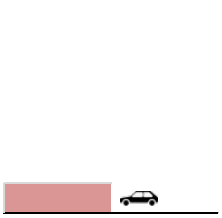
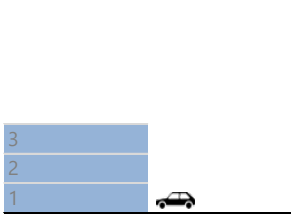
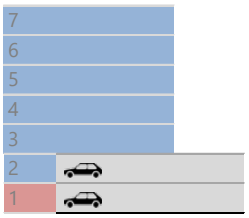
Mixed-Use 2 buildings are comparable to mixed-use buildings in other Puget Sound jurisdictions, including University Place and Bothell. These buildings have a total of six floors: four floors of wood-frame rental housing over a two-story concrete podium that includes commercial space, building core areas, and structured parking.

Thus, there are several major programmatic differences between the Mixed-Use 1 and 2 projects. First, the number of floors: Mixed-Use 1 is four floors while Mixed-Use 2 is six floors. Second, the amount of ground floor commercial space: Mixed-Use 1 contains about 22,000 square feet, while Mixed-Use 2 contains 5,000 square feet. Third, Mixed-Use 1 requires significantly more structured parking than Mixed-Use 2 since it contains more commercial space.

Retail and Office Prototypes. Typical retail/commercial and office prototypes are shown below. Like the housing prototypes, the way in which parking is provided (surface, tuck under, or structured) is a key influence on the physical form of these projects. The financial analysis in this report is focused on the three prototypes highlighted below.

For retail projects, we evaluated a "renovation" and new construction options. A typical renovation project occurs when a tenant moves out of space in an existing commercial building and then the building owner brings in a new tenant, while making a series of tenant improvements to the building's interior and exterior (e.g., paint, lighting, finishes, roof, HVAC, etc.), as also potentially site improvements to signage or access (e.g., ingress/egress). Because there are many existing commercial buildings on the corridor, there is significant potential for retail renovation projects.

Figure 43. Retail and Office Development Prototypes

Name	**Renovation**	**New Construction**	**Low Rise**	Mid Rise
				
Parking Structure	Surface	Surface	Surface Steel and concrete	Structure Steel and concrete
Floors- Min	1	1	2	5

The Low Rise office development type is typically 2 to 3 stories and can be a steel and concrete or wood building. All of the retail and office prototypes analyzed in this report are surface parked. The Mid Rise office prototype shown above is sometimes built in very hot office markets such as Bellevue or Redmond, but is highly unlikely here.

Model Inputs

LCG's financial analysis uses inputs in five different categories: program (the basic site and building attributes such as the acreage and number of housing units); timing (when development and lease up takes place); development costs (which include the purchase of land and buildings), site preparation, construction, and soft costs); operating income (e.g. rent revenue, vacancies, and operating expenses); and return on investment or ROI.

Return on investment includes both inputs (cap rates by development type, which are established by developers and investors region-wide and affect target rates of return) and outputs (the project's actual yield or return on cost). The actual return on cost is compared to the target rate of return in order to determine whether a project is feasible or not.

The standard site size for all development prototypes and all scenarios is 1.5 acres. Additional detailed model inputs are shown in the appendices on page 74.

Figure 44. Key Inputs to LCG's Pro Forma Model

Program	• Site size • Square feet of retail/restaurant, office, or other commercial uses • Number of housing units • Parking: Number and type of spaces • Building height, floors, and other design attributes
Timing	• Construction start • Certificate of Occupancy • Lease-up period
Development Costs	• Land or building purchase • Site preparation, e.g., demolition, grading • Hard (Construction) Cost • Soft Costs (architecture and engineering; project management; permits and fees; insurance; construction loan interest; contingency; other.)
Operating Income	• Rent revenue from retail, office, residential, parking • Vacancy • Operating expenses for management, utilities, taxes, insurance, maintenance, etc. • Net Operating Income (NOI: revenue less expenses)
Return on Investment	• Comparison of Capitalized Value (NOI/Cap Rate + development risk premium) to Total Project Cost • Target returns

Development Scenarios

Eight development scenarios were developed as part of this analysis and are shown below. Each scenario makes a different set of assumptions about key variables that affect each of the six main development prototypes. As we will see later, these different assumptions affect whether projects are feasible or infeasible.

The variables are shown below: the condition of the land being acquired by the developer; the site slope; parking assumptions; tax exemption; and rent premium.

Figure 45. Development Scenarios 1 through 8

Key Variables	1	2	3	4	5	6	7	8
Land	Vacant	Vacant	Vacant	Vacant	Vacant	Vacant	Building	Building
Slope	No	No	No	Yes	Yes	Yes	No	No
Parking Reduction	0%	0%	33%	0%	0%	33%	0%	33%
Tax Exemption	No	Yes	Yes	No	Yes	Yes	No	Yes
Rent Premium	-	0%	10%	-	0%	10%	-	10%

Land. In scenarios one through six, we assume that the developer is acquiring a vacant, undeveloped, "greenfield" property, whereas in scenarios seven and eight, we assume the developer is acquiring an existing commercial building. Based on data from Poulsbo and other locations, we assume that vacant properties are less expensive to acquire the existing buildings. The higher cost of acquiring a building will generally increase total costs and decrease returns.

Slope. Six of the eight scenarios assume that the property being acquired is relatively flat (i.e., 0 to 4% grade) whereas scenarios four, five, and six assume that the property is highly sloped (i.e., with a grade of 10% or more). As discussed further below, the cost of development on sloped sites is typically higher.

Parking reduction. Five of the scenarios assume that the parking provided by each project meets the city's current parking requirements within the C-3 zone. Parking requirements depend on a number of variables including the number of bedrooms in each housing unit. Because LCG assumes that a majority of units will be studios or one bedrooms, we assume an average of 1.3 parking spaces per unit would be required by current zoning. Three of the scenarios (three, six, and eight), assume that projects are able to build about 1/3 less parking than is currently required, or a parking ratio of 0.9 spaces per unit. Parking reductions—particularly for projects with structured parking—can significantly reduce development costs and therefore make more projects feasible.

Tax Exemption. The State authorizes cities to adopt eight, 12-, and 20-year multifamily property tax exemption (MFTE) programs. The property owner's property taxes are exempted for a defined period (eight, 12 or 20 years), and only the property taxes associated with the multifamily component of the project are exempted; taxes due on land and any commercial components of the project must still be paid. Currently the City of Poulsbo has not adopted an MFTE. The tax exemption is provided either to projects that provide one or more defined public benefits (in the eight-year program) or provide affordable housing (in the 12- and 20-year programs).

Many communities have used the eight-year MFTE to encourage mixed-use or multifamily development within defined focus areas where this type of development is desired—e.g., downtowns, corridors, transit station areas, etc.

In LCG's experience, far more developers opt in to the eight-year program than the 12- or 20-year programs, because it is very expensive for them to build the affordable housing associated with the 12- and 20-year programs.

Several scenarios in this analysis (two, three, five, six, and eight) assume that developers could take advantage of a new local eight-year MFTE program, which might be focused on some or all of the study area in order to encourage multifamily and mixed-use development. Reducing property taxes lowers developers' operating costs and therefore improves returns and feasibility.

Rent premium. Most scenarios use the baseline multifamily rent assumption of $2.85 per square foot per month (2023 figure, i.e., $1,995 per month for a 700 square foot one bedroom). Scenarios three, six, and eight assume a 10% "rent premium"—i.e., assume that rents are 10% higher than the baseline assumption.

This rent premium is used to test how feasibility might change if the project were in location that was somewhat more desirable than the SR305 study area—e.g., in Downtown Poulsbo, a location with great views or adjacent amenities, in certain desirable parts of Bainbridge Island, etc. In some cases, public actions—such as redesign of the SR305 right of way, significantly improved transit, new parks, etc.—can increase demand and therefore the amount tenants are willing to pay for space. A rent premium generally shows that development economics and returns increase when rents increase, and some of the more-expensive prototypes (e.g., with structured parking) become more feasible.

Interpreting the Output: Return on Investment

In the pages below, we summarize the return on investment (ROI) outputs identified for the various scenarios. Different developers use different metrics and approaches to decide whether a project is a worthwhile investment, including return on cost (or yield), internal rate of return (IRR), net present value (NPV), and equity multiple (EMx), among other metrics.

In this analysis, we use the return on cost approach since this is among the most commonly used for preliminary analysis. Return on cost is calculated as a percentage: net operating income (NOI) in the first year of stabilized operation, divided by total project costs (land, hard cost, soft cost, etc.). Target returns are 6.01% percent for Garden Apartments and Mixed-Use 2 projects; 6.76% for Mixed-Use 2; 7.74% for new retail projects; and 9.40% for office projects. Target returns are lower for multifamily because the development industry is generally more optimistic about the reliability of future apartment revenues, and less confident about retail and office returns. Targets for Mixed-Use 2 are higher than Mixed-Use 1 because of the larger ground floor commercial component.

In the pages that follow, we show color-coded bar charts that compare the calculated ROI for each project to the target returns listed above. The height and color of each bar indicates the following:

1	Infeasible Less than 80% of target return.
2	Challenged 80 to 90% of target return. However, major changes could improve feasibility
3	Marginal 90 to 100% of target return. Value engineering or other changes could make this project feasible.
4	Feasible, 100 to 120% of target return. Should attract capable developers.
5	Excellent More than 120% of target return. Multiple developers should seek out this project type.

Scenario 1: Vacant Site with Existing Conditions

Scenario 1 assumes a site that is vacant and has minimal slope. There are no changes to existing parking requirements, no tax exemption, and no rent premiums. Thus, this can be considered a baseline scenario.

The Poulsbo Sheds Site is an example of a site that reflects Scenario 1 assumptions. This is not only an underutilized site—it is also a site that could be a mixed-use "gateway" site linking the SR305 Corridor to downtown Poulsbo. It has excellent visibility from two main roads and is close to downtown. LCG believes that it is among the sites most likely to redevelop in the coming years.

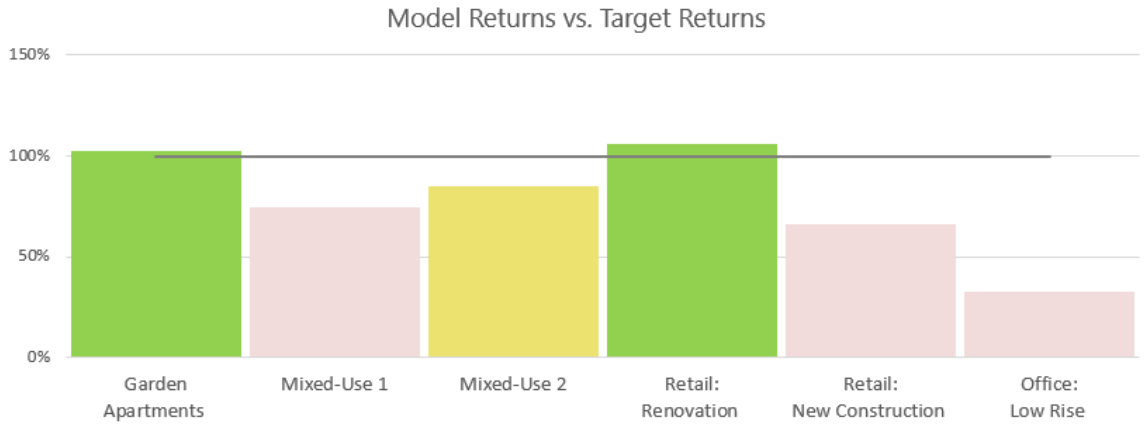
Figure 46. The Poulsbo Sheds Site

Figure 47 below summarizes LCG's pro forma analysis for Scenario 1. This analysis shows:

- Assuming a relatively flat and vacant building parcel, garden apartments and retail renovation projects are feasible, while other projects, such as new retail and office construction, are below the feasibility target threshold.
- Both Mixed-Use projects are challenged, which is consistent with developer interviews. While some local developers are proposing podium projects and appear to be on the fence between a go- and no-go decision, regional developers interviewed view podium projects as infeasible in today's economic environment in Poulsbo. Mixed-Use 2 buildings are closer to being feasible than Mixed-Use 1.
- Some retail/commercial buildings projects have recently been built, but these have probably been "build to suit" projects (built for a known tenant, identified prior to ground-breaking) rather the type of "speculative" retail projects modeled by LCG (built with the intent to lease to a variety of tenants).
- Residual land value, shown at bottom right, is the amount that developers could pay per square foot of land. The model indicates that a Garden Apartment developer could pay $5 per square foot of site area for land and a retail renovation project could pay $2 per square foot of site area. The other values are negative, indicating that the project is infeasible, and the developer would need to be paid to take the land.

Figure 47. Scenario 1 Feasibility Summary

Scenario	**1**
Land	Vacant
Slope	No
Parking Reduction	0%
Tax Exemption	No
Rent Premium	0%



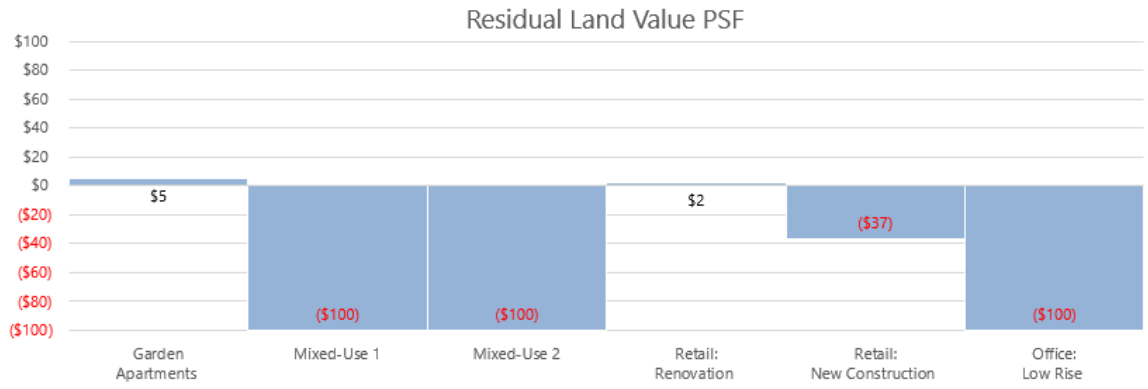
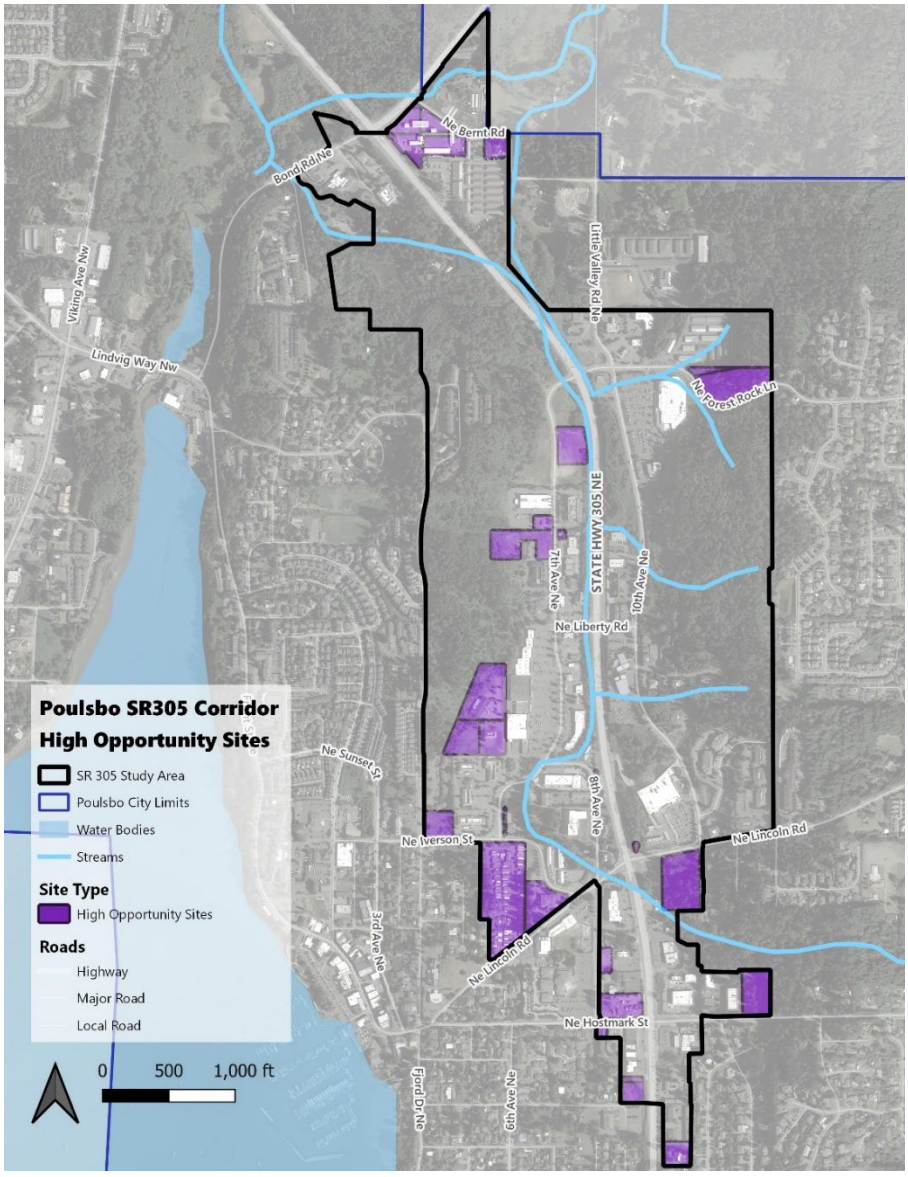


Figure 48 below shows the sites that are generally consistent with the Scenario 1 assumptions and appear to be the most likely to redevelop during the coming two decades based on the following criteria:

- Total property value of $20 per square foot or less (i.e., vacant, low-value, underutilized);
- Not highly sloped;
- No streams in parcel; and,
- Not part of condominium development.

While there are about 18 parcels that fit this definition, they make up a small part of the study area.

Figure 48. "Scenario 1" sites in the Study area: Flat, Low Value Sites



Source: Kitsap County GIS Data, Leland Consulting Group.

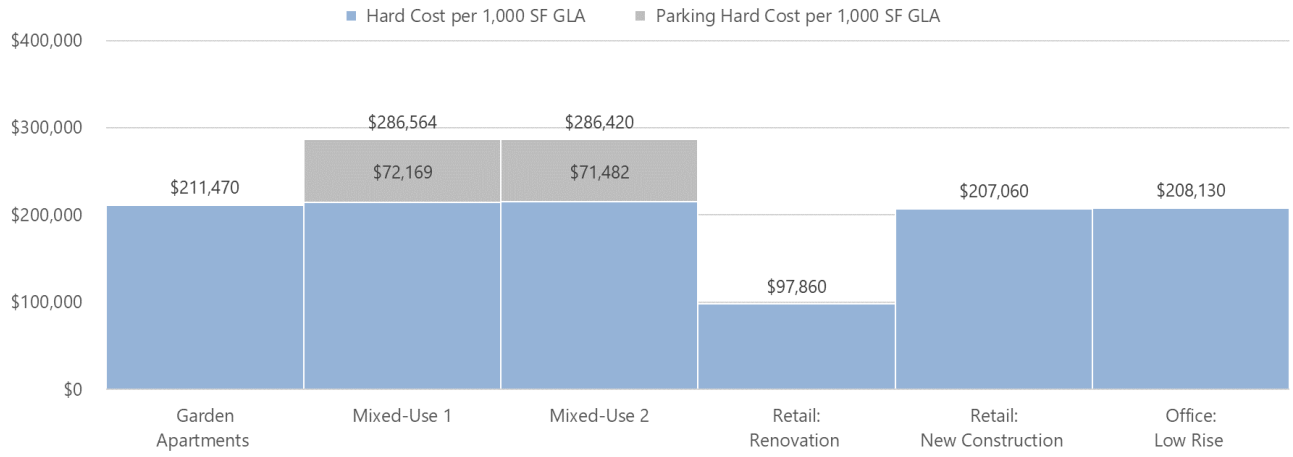
Figure 49 below shows the hard cost of construction for each 1,000 square feet of residential or commercial space (gross leasable area or GLA) in a given project.

This chart highlights several key takeaways. First, the base hard cost (blue bar) is the same for most projects. The exception is the retail renovation project, which costs just less than half the amount of the other projects. This is because the cost of straight forward renovations should be significantly less than the cost of new construction. There are exceptions to this assumption, such as the adaptive reuse of historic structures and brownfield sites.

Second, structured parking significantly increases construction costs. The structured parking included in the mixed-use projects is about $72,000 more than the garden apartment, since parking space is required for both residential units and commercial space, requiring well more than 1 space per 1,000 square feet of GLA, and the hard cost of each parking space is estimated to be $42,000.

While there is a cost to build surface parking for the other projects, that cost is included in the general "site prep" costs that developers incur as they grade and flatten land, build horizontal infrastructure, and pave future surface parking areas.

Figure 49. Total Hard Cost per 1,000 Square Feet of Residential and Commercial Area



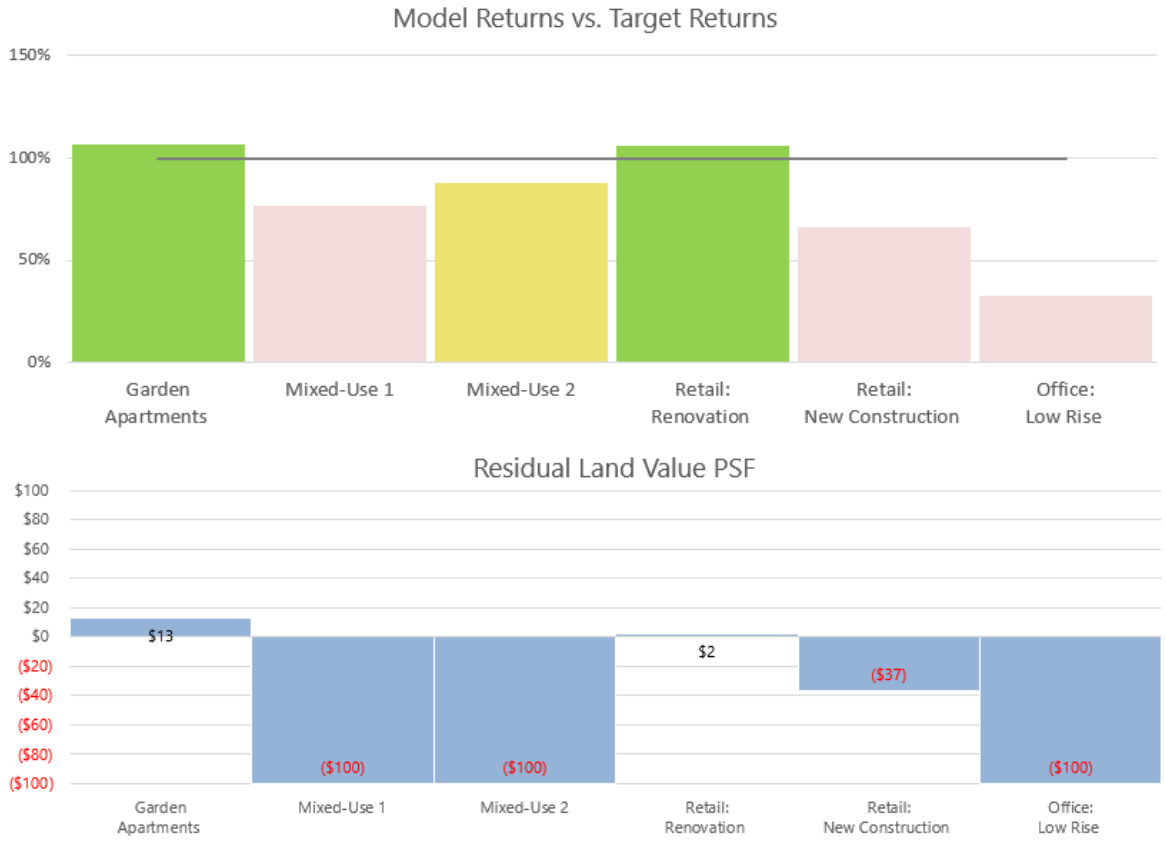
Source: Leland Consulting Group.

Scenario 2: Existing Conditions with MFTE

Scenario 2 assumes that the 8-year multifamily tax exemption (MFTE) program is in place in the study area. The impact of this program alone is modest. Garden apartments remain feasible. Both Mixed-Use 1 and 2 remain challenged, though their returns are slightly closer to targeted returns. The MFTE program does not apply to retail or office development and therefore has no impact on these types of development.

While the change in overall results between scenario 1 and 2 is modest, it is worth noting that the residual land value for garden apartments has more than doubled, from $5 to $13 per square foot, meaning that, assuming an MFTE program, garden apartment developers could purchase a wider array of properties than without an MFTE program. Under scenario 2, a garden apartment developer could purchase the one parcel of vacant land that LCG found that was purchased for development over the past five years (at $9.90 per square foot).

Scenario	2
Land	Vacant
Slope	No
Parking Reduction	0%
Tax Exemption	Yes
Rent Premium	0%

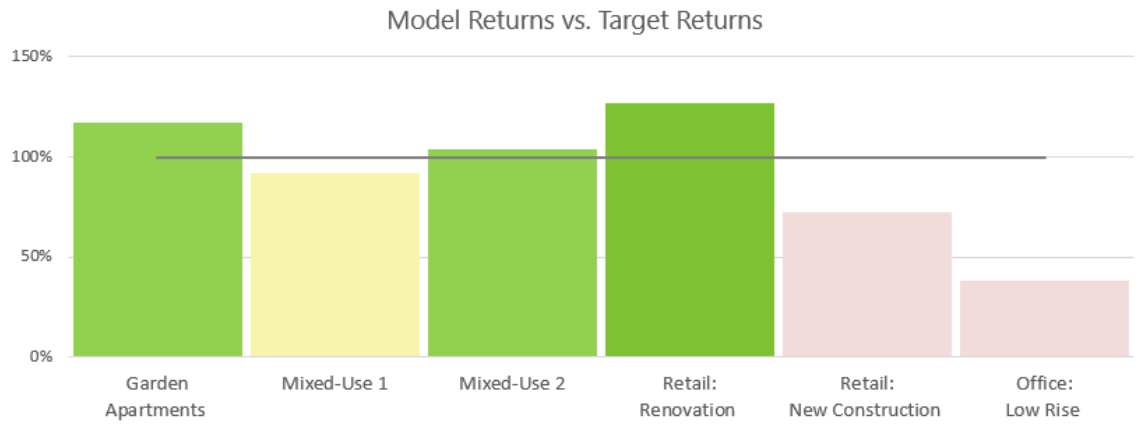


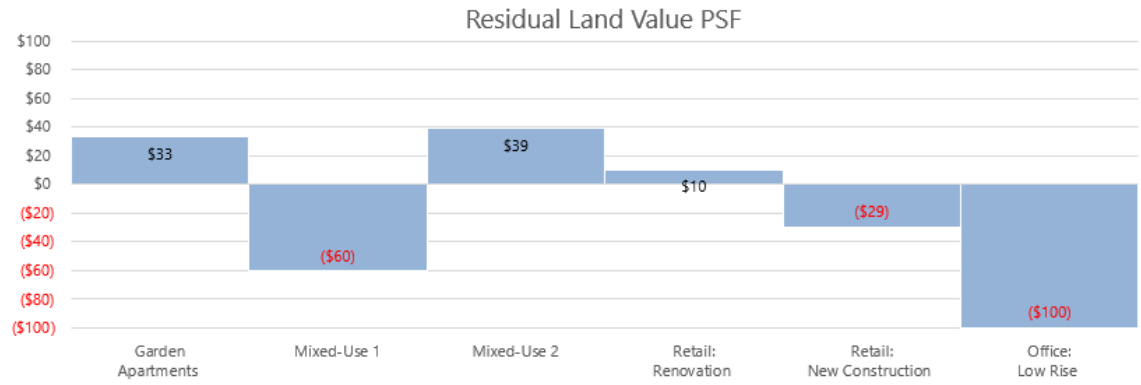
Scenario 3: Vacant Site with Incentives

This scenario assumes a parking reduction: from about 1.3 spaces per residential unit to 0.9 spaces; retail and office parking requirements are also reduced by one third. The MFTE is also assumed.

Lastly, a 10% rent premium is also assumed. Such a rent premium is somewhat comparable to the higher rents that would be achieved if the project were in a slightly more desirable residential location, such as downtown Poulsbo, or on a site in the study area with great views. This could also reflect conditions in the study area in five to 10 years, after a series of transportation and place making improvements are completed, and the area has become more desirable. As a mixed-use area matures, and more housing, retail and restaurants, open spaces, and other features are added, LCG's experience shows that its increased desirability is reflected in higher rents. These higher rents can create significant problems of gentrification in urban areas where moderate and lower-income households already live; with so few residents, this should not be a significant issue in the study area.

Scenario	3
Land	Vacant
Slope	No
Parking Reduction	33%
Tax Exemption	Yes
Rent Premium	10%





LCG believes that a parking ratio of 0.9 spaces per unit is certainly within the realm of reason, given current transit in the corridor, connectivity to downtown, planned and proposed transit and transportation improvements, increasing adoption of rideshare and other mobility advancements, and the fact that one- and two-person households are the most common residents of mixed-use projects. LCG recently conducted a review of eight mixed-use projects in suburban jurisdictions in the Portland region. The average parking ratio was 0.86 parking spaces per housing unit; the

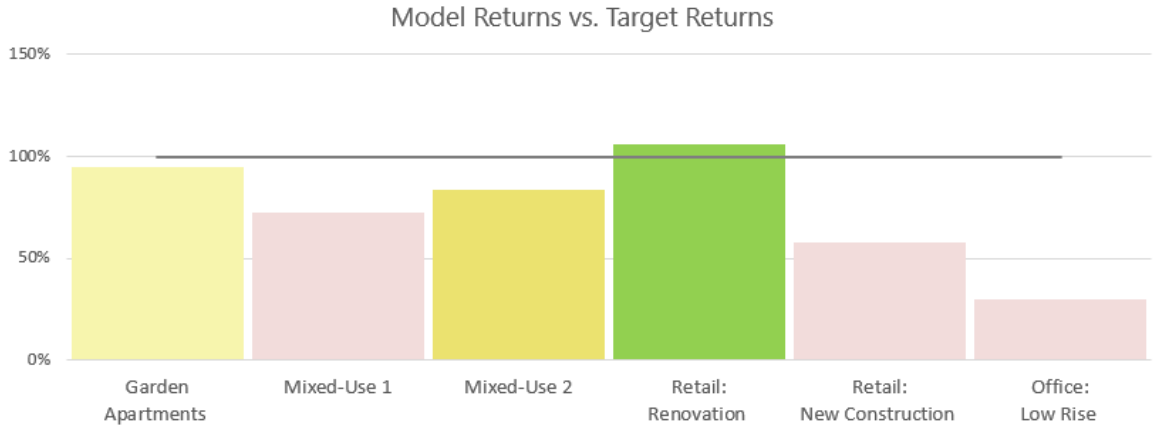
low was 0.42 (in Canby, 24 miles southeast of Portland), and the high was 1.5 spaces per housing unit (in unincorporated Washington County, 11 miles west of Portland).

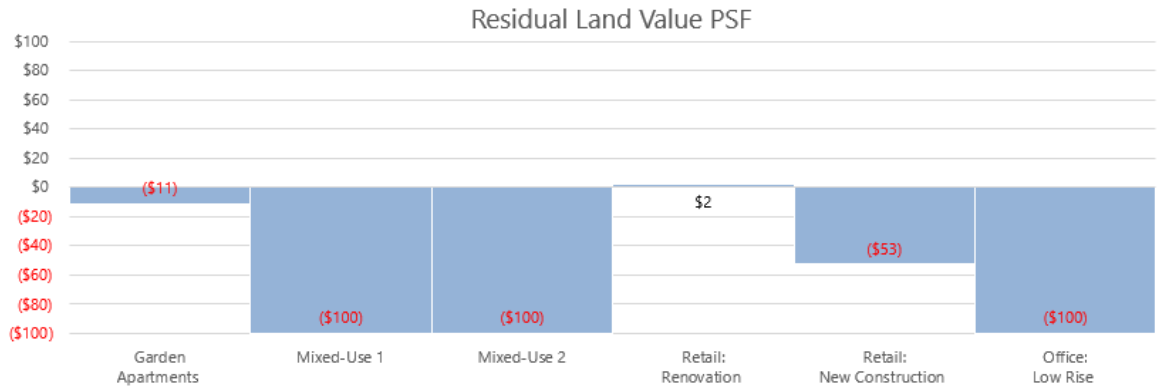
In this scenario, both Garden Apartments and Mixed-Use 2 projects are feasible, generating significantly higher residual land values of $33 and $39 per square foot. The results of this analysis are important and indicate that several development incentives, along with increased desirability of the area, could make both garden and mixed-use projects feasible on vacant, flat sites. It is notable that—as development conditions such as higher rents and lower parking requirements shift—the podium project generates more residual land value than garden apartments and will therefore begin to "outbid" the lower density projects for land under these conditions. The Mixed-Use 1 project remains infeasible in this scenario; however, its returns are getting closer to the target.

Scenario 4: Sloped Site with Existing Conditions

This scenario is similar to scenario 1 but assumes a sloped site (grade of 10%+) and therefore significantly higher site development/site preparation costs ($32 versus $16 per square foot of site area).

Scenario	4
Land	Vacant
Slope	Yes
Parking Reduction	0%
Tax Exemption	No
Rent Premium	0%



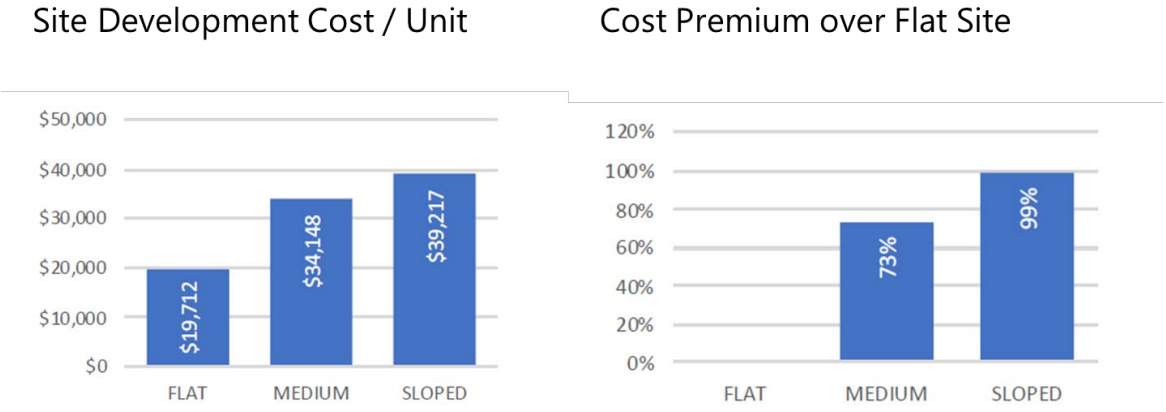


In this scenario, the only feasible development scenario is a retail renovation, since such a project would already have dealt with the cost of site preparation. However, a retail renovation on a sloped sight is an imaginary concept—there are no retail properties in the study area that are on sloped sites.

Figure 50 below shows the results of a study that evaluated the cost of site development for multifamily and single-family homes on dozens of flat (0 to 4% slope), "medium" (4 to 9% slope), and sloped sites (10%+ slope) in Oregon's Willamette Valley. This is the most comprehensive analysis that LCG is aware of regarding this issue. LCG identified areas with 10 to 18% slopes on the east and west hillsides in the study area. Site development includes work such as grading and earth moving, building roads and utilities, stormwater improvements, and retaining walls. Federal and state rules exist that limit the slope of roads, sidewalks, and Americans with Disabilities (ADA) compliant ramps, and therefore these features must curve on steeper sites.

As shown below, developers in the Willamette Valley paid about $19,700 per unit to complete site development for apartment projects on flat sites. They paid 99% more—about twice as much or about $39,000 per unit— to complete site development for apartment projects on sloped sites. LCG assumes that site development for all prototypes will be about twice as much on sloped sites compared to flat sites.

Figure 50. Cost Impact of Sloped Sites on Apartment Development



Source: Impact of Slope on Housing Development Costs, Portland State University, 2020

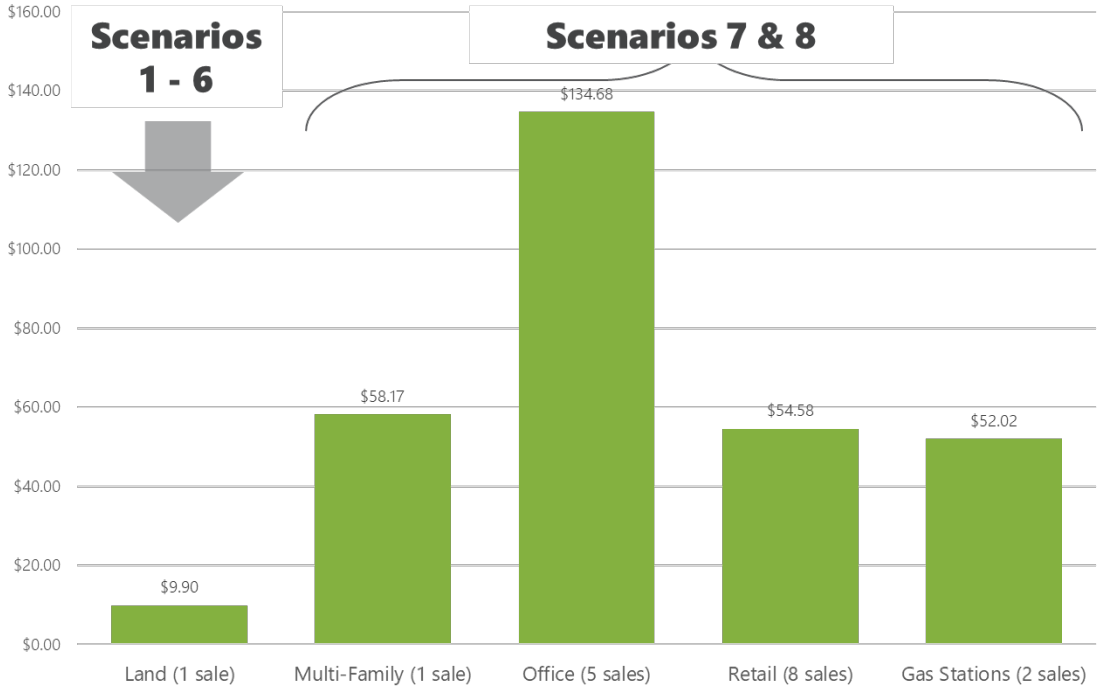
Scenario 7 and 8: Sites with Existing Commercial or Industrial Buildings

Unlike the other scenarios, scenarios 7 and 8 consider the economics of development on sites that already have existing buildings on them. There are scores of sites in the study area that contain existing buildings. Indeed, this condition is common in most urban corridors, like the ones mentioned above—Bridgeport Way in University Place, Aurora Avenue in Shoreline, etc.

The economics of development change when developers consider purchasing existing commercial properties, demolishing them, and then building something new. The most significant change is probably that existing buildings usually cost much more than vacant, "greenfield" land. There can also be unexpected and costly site development challenges such as environmental issues and stormwater management requirements. Property owners may also be less willing to sell. For example, they may have businesses in the buildings that they want to continue to operate. Conversely, some owners of commercial property are more financially motivated—they are in the business of buying and selling commercial property—and therefore may be perfectly willing to sell at the right price.

Figure 51 below shows the property sales that LCG identified in the study area since 2019. We found one sale of vacant land (at left) for $9.90 per square foot. We identified 16 sales of properties *and* existing buildings, ranging from $52 to almost $135 per square foot of site area. The sales of office buildings were the highest but LCG expects these to come down in coming years, for reasons discussed elsewhere. For Scenarios 7 and 8, LCG assumed that developers would need to pay $55 per square foot for land. Therefore, our analysis assumes that the cost of land acquisition increases by more than 500% when developers have to purchase a building compared to a vacant site.

Figure 51. Property Sales Price per Square Foot of Site Area, SR205 Study Area, 2019 to 2023



Source: CoStar, Leland Consulting Group.

One example of a site with existing commercial buildings on it is Poulsbo Village.

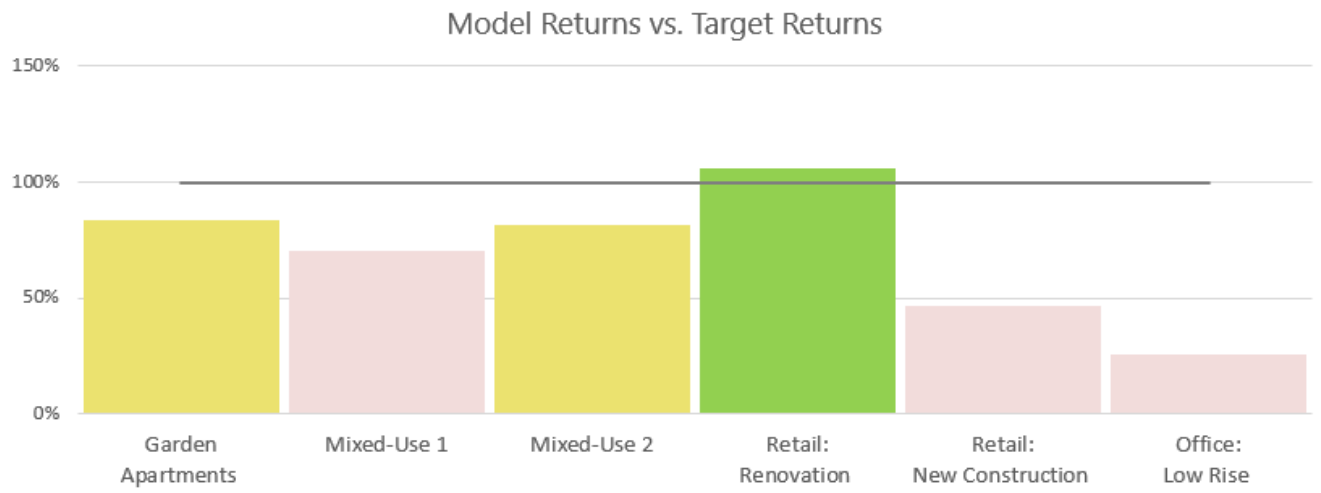
- This is a large collection of properties that is jointly managed and owned by a limited number of individuals.
- It has good access and visibility and is also proximate to downtown.
- Its size makes it unique in the study area.
- While the buildings are reasonably well maintained, their age and tenant mix suggest that this property could offer some redevelopment opportunities over the next two decades.
- The long-vacant, former Albertson's building is located in this center, and there are reports that a new tenant could be signed this year.

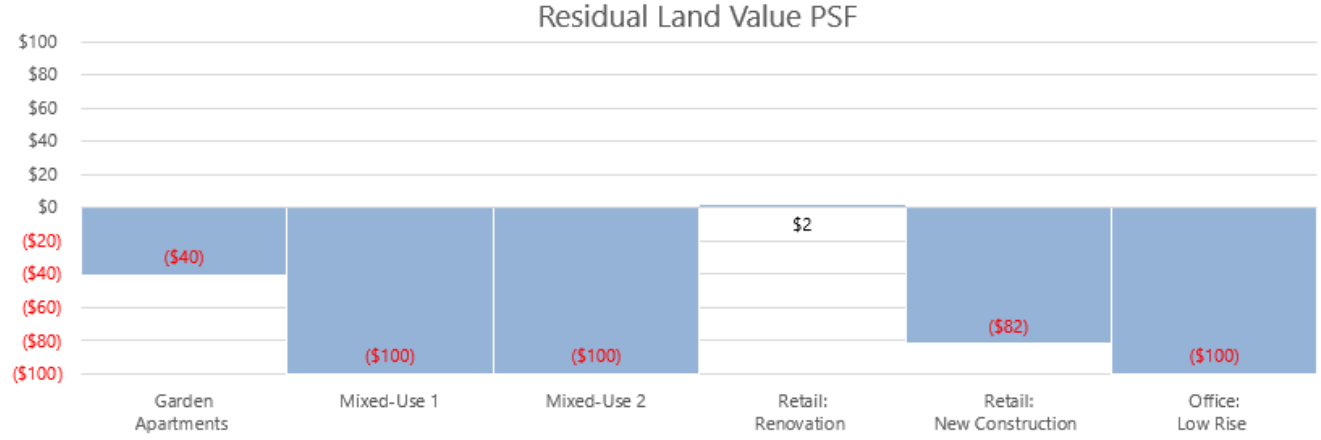
Figure 52. Poulsbo Village

The results of the Scenario 7 and 8 analysis is shown below, and indicate that:

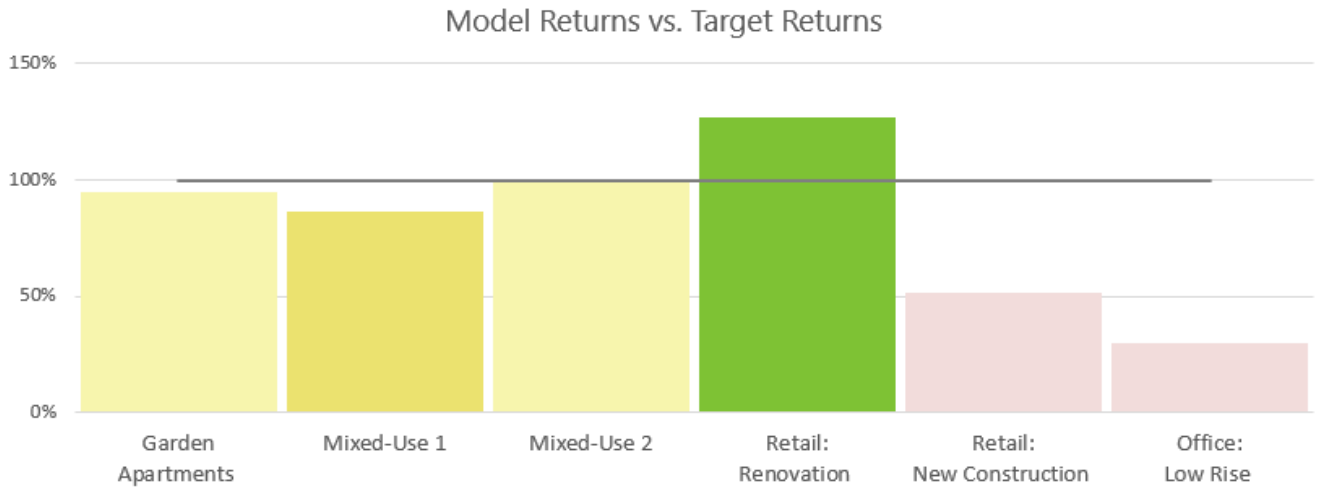
- New housing and mixed-use projects are generally infeasible when developers must purchase existing buildings.
- By contrast, retail renovation projects are feasible because the cost of construction is minimal.
- New retail and office development are infeasible.
- In Scenario 8, we assume a parking reduction, tax exemption, and rent premium. Even under these assumptions, housing and mixed-use projects are infeasible. However, the Mixed-Use 2 project is almost feasible, and some value engineering or improved economic conditions would probably make some of these projects possible under this scenario in the coming decades. This result is consistent with the results shown in Scenario 3. It is possible, therefore, to imagine that a series of development incentives and higher rents enabling developers to buy and redevelop lower value properties (e.g., seriously dilapidated commercial buildings or industrial buildings).

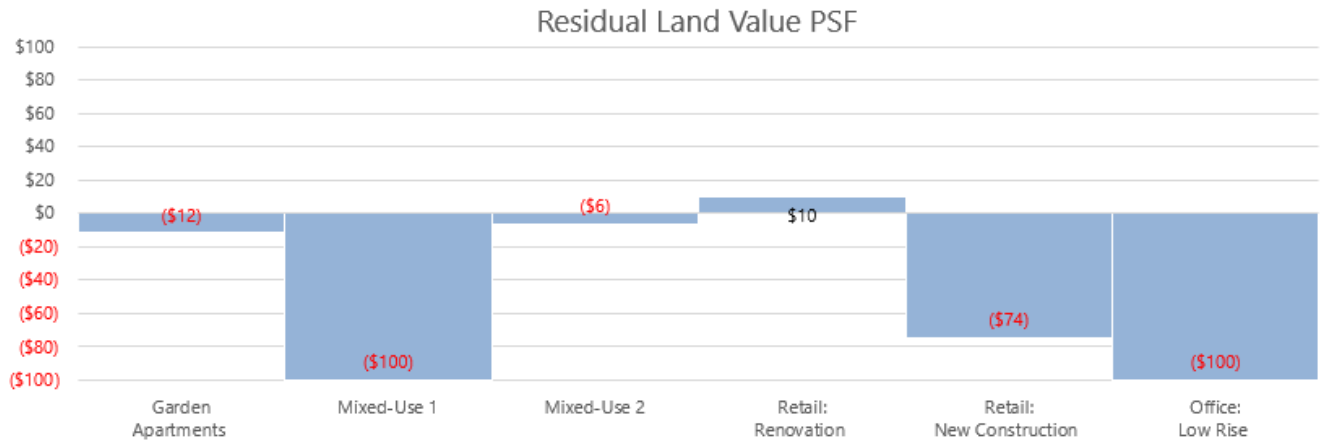
Scenario	7
Land	Building
Slope	No
Parking Reduction	0%
Tax Exemption	No
Rent Premium	0%





Scenario	**8**
Land	Building
Slope	No
Parking Reduction	33%
Tax Exemption	Yes
Rent Premium	10%





Conclusion

This section summarizes key takeaways from the existing conditions analysis, stakeholder interviews, real estate analysis, PSRC Centers framework analysis, and development feasibility analysis presented in this report and presents recommendations for next steps the city could take to encourage redevelopment and determine the future trajectory for the SR305 Corridor.

Key Takeaways

- Poulsbo's population has **grown rapidly** over the past several decades and is forecast to keep growing at rates exceeding regional and statewide averages, showing a need to **plan for new housing and employment opportunities** in the city in the coming decades, including along the SR305 Corridor.
- Poulsbo's economy has fluctuated over the past two decades, with **robust job growth since 2013 at about 3.1 percent per year**, though job growth has decreased since the onset of the COVID-19 pandemic.
- **Retail, health care, and hospitality** are the top job sectors in the city, and are all sectors expected to see significant gains in employment in the region in coming decades. Poulsbo has **relatively few jobs in professional and business services**, another sector expected to see job growth in the next 20 years. This may signal challenges for new office development in the city.
- Much of the SR305 study area is **steeply sloped** on both sides of the corridor and the area contains **streams, wetlands, erodible and hydric soils, and geohazard areas**, all of which pose significant barriers to development by adding significantly to design, engineering, and construction costs.
- Most of the demand in the study area is for **housing**. The **retail** market is active in existing buildings but with less demand for new development, and **office** demand has dropped significantly because of the COVID-19 pandemic.
- When compared with nearby comparison areas, the SR305 corridor area has seen **considerably less development** than corridor areas in Silverdale, University Places, Shoreline, and Bothell, particularly in multifamily development.
- One regional comparison area of interest is Bridgeport Way in **University Place**, which has a similar demographic and income mix to Poulsbo. This corridor and the Town Center area have seen a significant amount of redevelopment over the past two decades because of proactive planning, rezoning, and city investment in infrastructure, land, and the MFTE program.
- The current Activity Unit density in the SR305 corridor is **well below** the required 18 Activity Units per acre, and given the most likely scenario where the study area develops at the density of Bridgeport Way in University Place, the study area still may not achieve the required minimum within twenty years.
- The SR305 Corridor can probably provide the required **capacity** for future development (45 AU/acre), but actually realizing the required amount of development will be challenging.

Recommendations

- **Clarify what City leadership and residents want this area to become via the subarea planning process.** The vision should drive recommendations and implementation actions. If the City wants the area to become a walkable, mixed-use place like the University Place Town Center or Downtown Bothell, the more proactive the City will need to be in crafting its policy and making investments to align with this vision.
- Issues with soil, slope, and streams are difficult for the city to address, but the city could **consider some regulatory changes to encourage development in the study area**:
    - Currently, density in the RM/RH zones is regulated by units per acre and density in the C3 zone is regulated by lot coverage standards and parking regulations. Consider **regulating density by FAR** instead to allow flexibility for developers to build densities that are feasible while maintaining desired building size.
    - Consider **reducing minimum front yard setback** to 0' to enable development that fronts directly onto the sidewalk, as in historic parts of downtown Poulsbo.
    - Consider **allowing/encouraging shared parking ratios** between housing and commercial space in the same building.
    - Consider **allowing lower parking levels** in locations where residents could feasibly walk to transit, downtown, and other destinations. Most of the study area is within a quarter mile of SR305 and therefore should meet these criteria.
- **Consider allowing garden apartments, single family housing, and middle housing (e.g., townhomes) in the east and west hillside areas**. While these hillsides will be challenging to develop under any conditions, allowing a variety of housing is most likely to result in development. Some of the hillsides could also be retained as open space in perpetuity, as park space or via conservation easements.
- Consider changes to the C-3 Zone to reduce regulatory barriers to development, including allowing more height and residential density, and requiring significantly less ground floor commercial space. Explore a variety of options around **ground floor spaces**, such as:
    - Matching the C-1 zone outside of the shopfront overlay, which allows residential units that are "**constructed to commercial building and fire code standards**." Commercial code typically requires higher ceilings to allow HVAC, sprinklering, and different trash collection. There is a benefit of this approach to businesses since the tenant improvements tend to be much less compared to raw commercial space.
    - Requiring more commercial space on key "main streets," and less along side streets.
    - Allowing **well-designed ground floor housing**, even if not constructed to commercial standards. Consider allowing **live-work units**. Quincy Square and Marina Square in Bremerton both feature ground floor "live work" units.
    - Allowing or encouraging other ground floor spaces such as lobbies, gyms, and resident common areas; or design features such as high-quality materials and art on facades.
- **Continue to understand and weigh the benefits of pursuing a Regional Growth Center designation for the study area.** Since an RGC designation will require the City to invest staff time and funds towards

planning a higher-density, mixed-use place, the City should be sure that the amount of infrastructure funding that it could receive is commensurate with this effort.

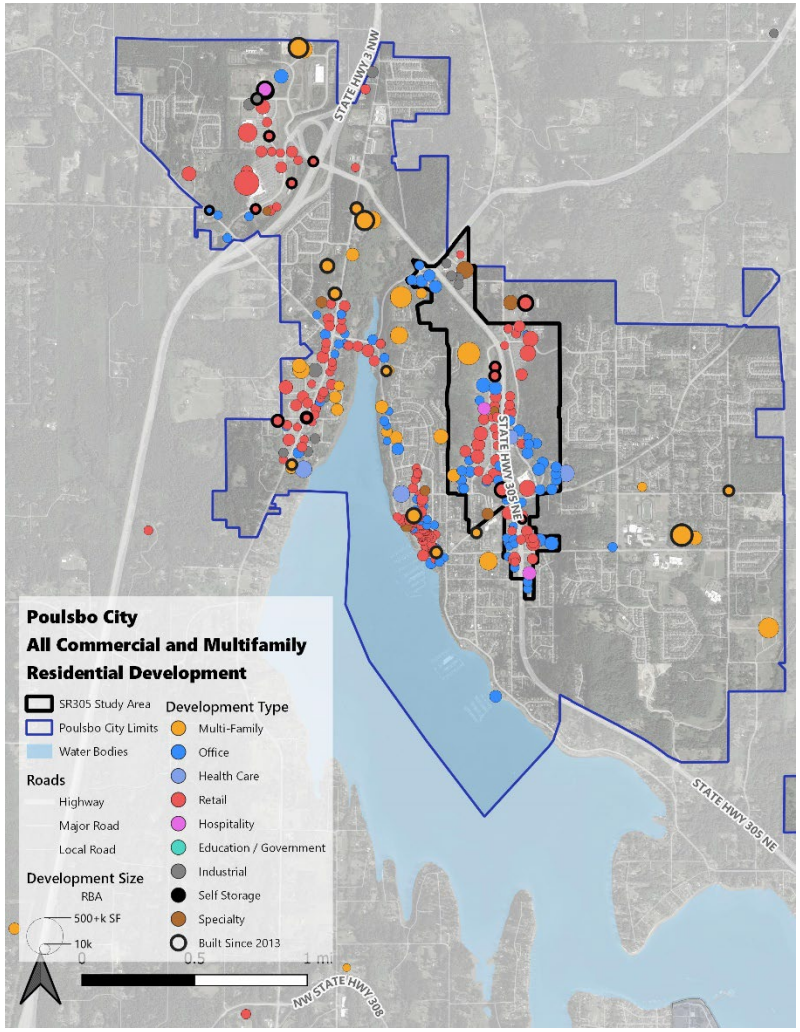
Appendices

Figure 53. Commercial Sales in SR305 Study Area, 2019-2023

Type and Property/Owner	Land Area (Acres)	Rentable Building Area (square feet)	Number Of Units	Last Sale Date	Last Sale Price	Price per square foot Land	Price per square foot RBA
Land	**2.55**				**$1,100,000**	**$9.90**	
Kitsap County 2.55 Acre Development Site	2.55			11/16/2022	$1,100,000	$9.90	
Multi-Family	**2.13**	**28,850**	**35**		**$5,397,500**	**$58.17**	**$187.09**
Valley View Apartments	2.13	28,850	35	2/19/2021	$5,397,500	$58.17	$187.09
Office	**4.59**	**79,991**			**$26,927,550**	**$134.68**	**$336.63**
Creekside Center (Healthcare)	2.51	41,680		1/10/2022	$17,300,000	$158.23	$415.07
Powder Hill Bldg 4	1.01	12,220		3/23/2021	$2,800,000	$63.64	$229.13
Powder Hill Building 6	0.42	19,724		11/14/2022	$5,525,000	$301.99	$280.12
Norbut Law Firm	0.23	1,567		9/14/2021	$487,550	$48.66	$311.14
Little Ducklings Preschool	0.42	4,800		12/13/2021	$815,000	$44.55	$169.79
Retail	**8.6**	**105,570**			**$20,447,000**	**$54.58**	**$193.68**
Hollywood Video	0.63	6,600		11/6/2019	$900,000	$32.80	$136.36
Park Building	0.84	7,280		4/11/2019	$1,050,000	$28.70	$144.23
Plaza 305	1.89	29,534		7/7/2020	$4,000,000	$48.59	$135.44
Poulsbo Retail Building	0.81	7,401		7/25/2019	$1,275,000	$36.14	$172.27
Rite Aid	2.59	32,604		10/8/2019	$3,185,000	$28.23	$97.69
Clothing Store	0.47	5,341		1/12/2021	$622,000	$30.38	$116.46
Peninsula Electric	0.08	2,310		12/14/2020	$520,000	$149.22	$225.11
CVS Pharmacy	1.29	14,500		10/8/2019	$8,895,000	$158.30	$613.45
Gas Stations	**2.03**	**6,668**			**$4,600,000**	**$52.02**	**$689.86**
Texaco	0.97	3,612		10/7/2021	$3,600,000	$85.20	$996.68
Chevron	1.06	3,056		8/2/2021	$1,000,000	$21.66	$327.23
Grand Total	**19.9**	**221,079**	**35**		**$58,472,050**	**$67.45**	**$264.48**

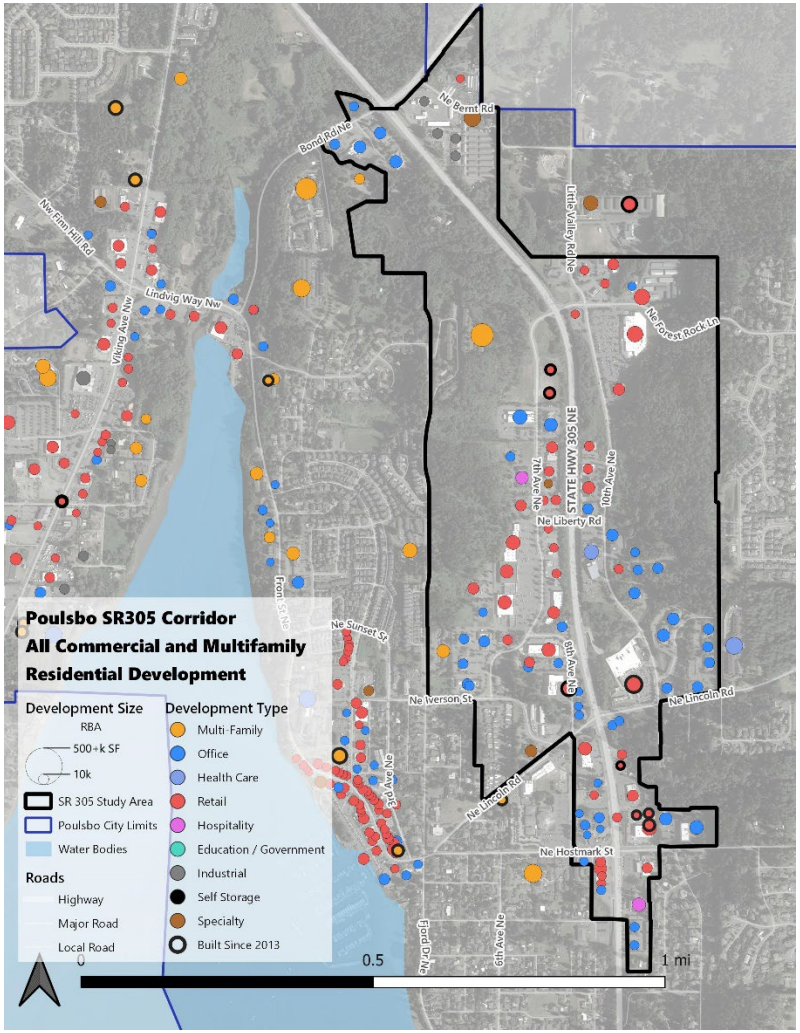
Source: Costar

Figure 54. Existing Commercial and Multifamily Residential Development in Poulsbo



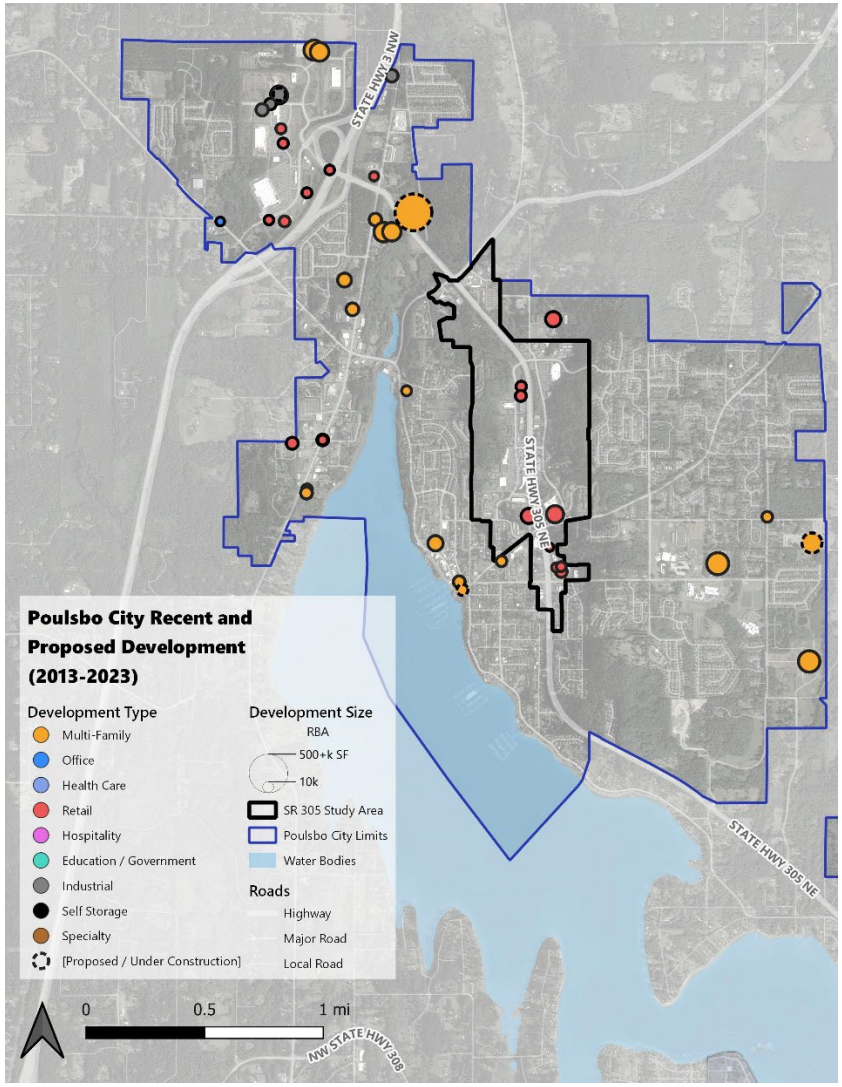
Source: Costar, City of Poulsbo

Figure 55. Existing Commercial and Multifamily Residential Development in SR305 Corridor



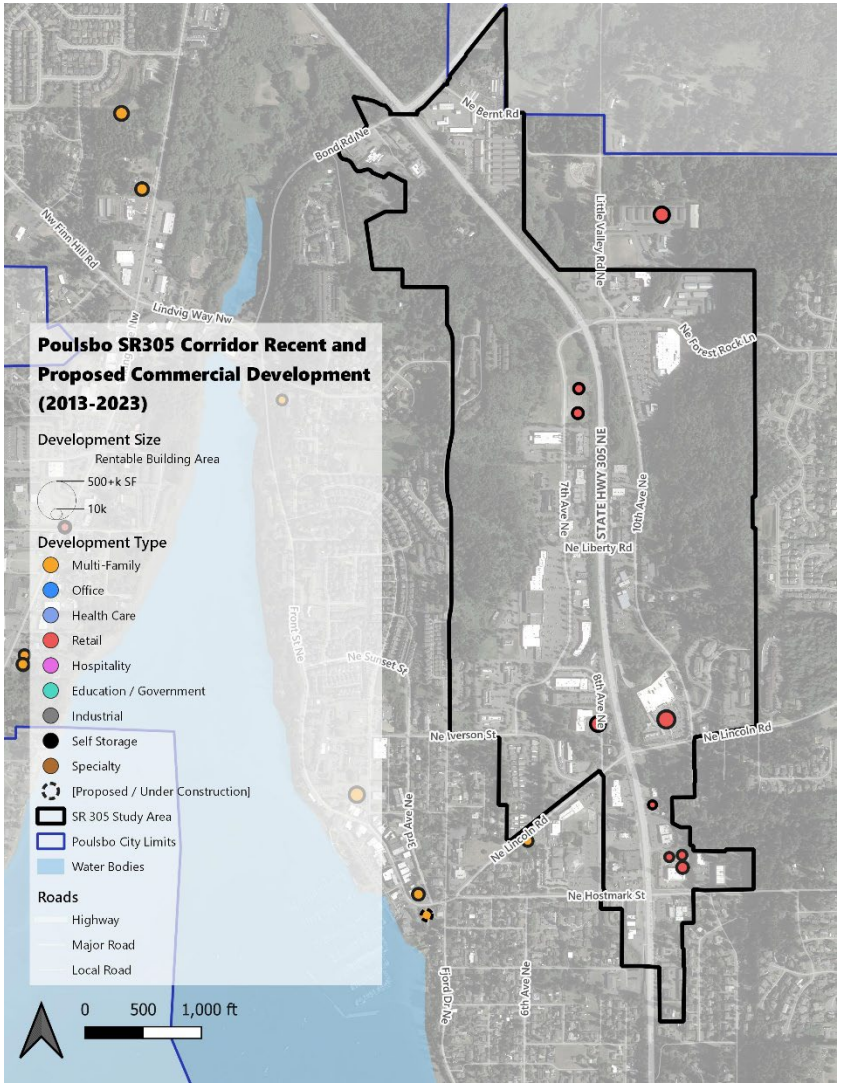
Source: Costar, City of Poulsbo

Figure 56. Recent and Proposed Commercial and Multifamily Development in Poulsbo (2013-2023+)



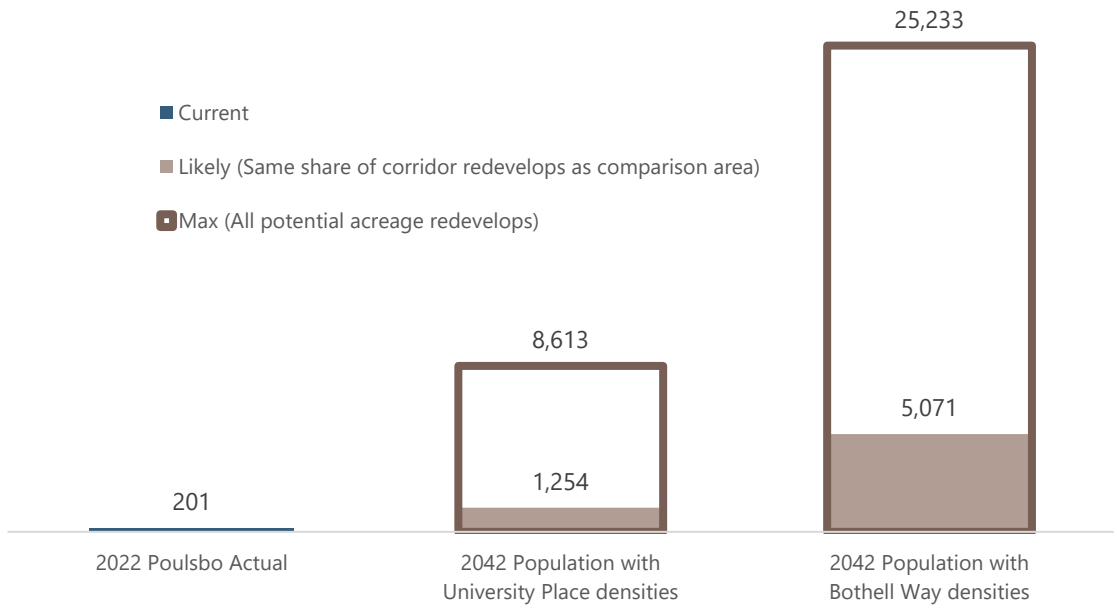
Source: Costar, City of Poulsbo

Figure 57. Recent and Proposed Commercial and Multifamily Development in SR305 Study Area (2013-2023+)



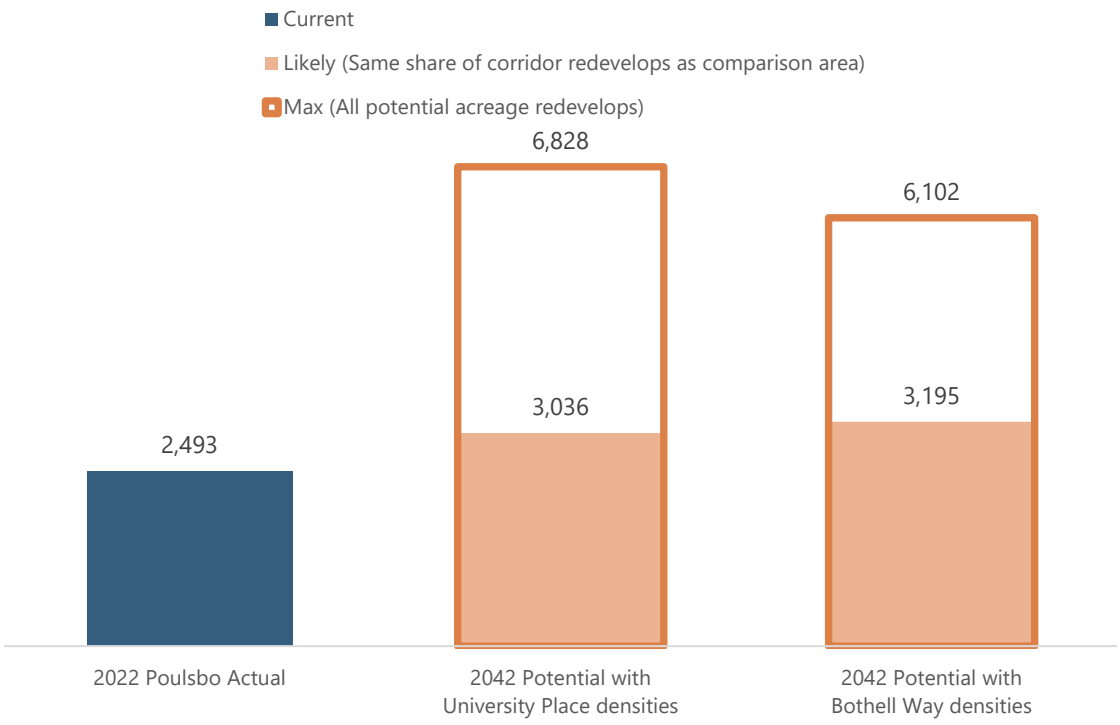
Source: Costar, City of Poulsbo

Figure 58. SR305 20-Year Population Scenarios



Source: Costar, King, Pierce, and Kitsap County GIS Data, Leland Consulting Group

Figure 59. SR305 20-Year Job Scenarios



Source: Costar, King, Pierce, and Kitsap County GIS Data, Leland Consulting Group

Figure 60. Potential SR305 Study Area Redevelopment Scenarios, 2022-2042

	Bridgeport Way (UP) Scenario	Bothell Way Scenario
Redevelopment Propensity	5%	8%
Units per Gross Redeveloped Acre	25	74
New Units	441	2,038
People per Household	2.4	2.4
New Population	1,053	4,870
Commercial RBA per Gross Redeveloped Acre	18,483	15,387
New Commercial RBA (rentable building area in sq ft)	325,563	421,193
Square Feet per Job	600	600
New Jobs	543	702

Source: Costar, King, Pierce, and Kitsap County GIS Data, Leland Consulting Group

Figure 61. Key Development Feasibility Inputs

Site and Building Attributes

Location (State)	Washington	
Site		
Gross Site Size (acres)	1.5	
Residential		
Avg unit size (sf)	850	
Efficiency (%)	85%	
Parking Requirements Prior to Reductions		
Residential	1.30	/unit
Retail	4.00	/1,000 SF
Office	3.00	/1,000 SF
Parking Area	350	SF per space incl. drive lanes

Timing

Construction Start	5/25/2024	
Construction Duration	12	months
Opening Day	5/25/2025	
Lease Up	9	
Average Leasing Date	10/8/2025	

Cost

Land Cost			
PSF by Type			
Developer-owned	Owned		$0
Vacant	Vacant		$10
Commercial Building	Building		$55
Site Prep			
/SF of Site Area - Flat Site	$16		
/SF of Site Area - Sloped Site	$32		
Hard Cost			
Source: RS Means Construction Cost Estimating Data.			
Residential			
	$201	/SF	
Retail			
Rehab discount	80%		
Core and Shell	$130	/SF	
Tenant Improvement Allowance	$67	/SF	
Subtotal	$197		
Office			
Core and Shell	$142	/SF	
Tenant Improvement Allowance	$56	/SF	
Subtotal	$198		
Parking	/PSF		/Space
Rehab discount			
Surface	$0		$0
Tuck under	$20		$7,000
Structured	$120		$42,000
Underground	$190		$66,500
Post Tensioned Slab	$50		$17,500
Soft Costs	% of HC		
Architectural & Engineering	6.0%		
Development Fees & Admin	4.0%		
Permits, Fees, & Entitlement	10.0%		
Insurance	1.5%		
Legal	0.5%		
Construction Loan Interest	7.0%		
Marketing	0.0%		
%	3.0%		
Total Soft Costs - %	32.0%		
Hard Cost Contingency	5.0%		

Revenue and Expenses

Revenue Source: CoStar.		
Residential		
Rent / unit / month, 2023	$2,423	
Rent / SF / month, 2023	$2.85	
Rent / unit / month During Lease Up	$2,628	
Rent / SF / month During Lease Up	$3.09	
Vacancy	5.0%	
Operating Expenses as % of PGI	34.0%	
Office		
Lease Rate per year (Full Service) PSF	$18.00	/SF/year
Vacancy	9.0%	
Operating Expenses	$8.00	/SF/year
Retail		
Lease Rate per year (NNN) PSF	$20.00	/SF/year
Vacancy	8.0%	
Operating Expenses	$0.00	/SF/year
Parking		
Gross revenue per month	$40.00	
Vacancy	10%	
Operating Expenses	30%	

Return on Investment

Cap Rates		
Source: Integra Realty Resources.		
Apartments	4.71%	
Office	6.23%	
Retail	6.31%	
Target Yields		
Basis Points above Cap Rate	150.00	
Apartments	6.21%	
Office	7.73%	
Retail	7.81%	

5/26/2023